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CIVIL SOCIETY

**POLITICAL PARTIES OF
KAZAKHSTAN IN THE 2005
ELECTION CAMPAIGN:
LESSONS, CONCLUSIONS,
AND PROSPECTS**

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Today, with the democratic reforms moving ahead, with domestic political stability due to an effective presidency, and with clear prospects for the country's social and economic development, the problem of sociopolitical consolidation has come to the fore, while political parties are tending to integrate into larger units.

In democratic countries, the political parties involved in various ways in state administration have an important role to play in shaping the power system. This stirs civil society into action, which, in turn, contributes to the way key sociopolitical issues are resolved. At the same time, it is commonly believed that elections are the main focal point of the political parties' activities: by their very nature they are designed to win state power and govern the state. The parties are expected to consolidate society and to shape public moods in a constructive way to avoid social disintegration at the most trying and far from easy times, such as presidential elections. For obvious reasons, different political parties use different instruments to influence electoral preferences.

Kazakhstan is moving ahead along the road of democracy and democratic traditions; its party system has already covered a short, yet dynamic stretch of this road filled with all kinds of transformations. The parties have already left the initial development stages behind; they have withstood the

test of several election campaigns and found their own niche in the republic's sociopolitical hierarchy. The country has already passed the time when the political parties operating on the domestic political scene could not be described as a party system.¹ It is commonly and correctly believed that at the earlier stages of party development, society mistrusted the new structures that overused bombastic declarations, unfeasible promises, and the administrative resource.

Indeed, the new state's first decade was a kaleidoscope of all sorts of political structures that appeared, split, disappeared, or merged before the nation's eyes.

Since that time the party system has obviously advanced much further.² All political forces are involved in a competition that calls for concrete and practical steps and rejects the use of the administrative resource and coercion. On the one hand, the party system has not yet acquired its final shape; on the other, the gradually unfolding political liberalization helps parties and public movements join the political-power processes underway in the republic.

In the last few years, Kazakhstan has finally established the "rules of the political game," which allowed most of the political parties to acquire their social bases, electoral, and even parliamentary history. Today, the parties do not limit themselves to elections—they also want to have a say in creating the rules of the election procedure.³ We can agree with those who say that today the role of the political parties in an uncompromising and public power struggle is higher than ever.⁴ Life has shown that some of the players proved unequal to the heat of the inter-party race.

Systemic democratization of the country's political field led to the emergence of serious political forces—large parties able to affect the political context across the republic. The changes in the republic's electoral legislation the parliament adopted made it possible to treat the formation and functioning of the political parties more seriously. On the other hand, the state needs a strong and stable multiparty system that would let it address problems in different ways and stimulate the country's political developments.

Objectively speaking, it should be said that party development is not free of certain problems. Thus, election campaigns stir up some of the parties, hardly visible at other times, into frenzied action.

Some of the parties are too small to have grass-roots cells indispensable for close ties with the people and mobilization of the masses; they are unable to perform other social functions either. Others, in the government and the opposition camp alike, have no stable electorates: the former survive thanks to the authority of the country's leaders; the latter, by criticizing the regime.

Many of Kazakhstan's parties are still unable to formulate, uphold, and translate into practice ideas, programs, and initiatives on a nationwide scale—something that could have helped them enlist new members. With no role to play in the sphere of political relations, they lose their political influence and, hence, the electorate.

What we need today is a developed, stable, and logical multiparty system the nation can understand and accept. This is a task of strategic importance for any country that wants to be recognized as a democratic state. Under the Constitution of Kazakhstan, all kinds of public and political alliances can develop and function—in fact, they are successfully developing. This means that all parties are vying for the nation's mandate of confidence within the republic's laws.

It should be said in this connection that the 2005 presidential election demonstrated the country's real achievements in the party development process and outlined its prospects.

¹ See: S.A. Diachenko, L.I. Karmazina, "O nekotorykh aspektakh partogeneza Kazakhstana v usloviakh perekhodnogo perioda," *Dnevnik Altayskoy shkoly politicheskikh issledovaniy*, No. 13/34, 2001, p. 262.

² See: D. Satpaev, "Partiynoe 'detstvo' Kazakhstana," *Kazakhstanskaia pravda*, 2 April, 2004.

³ See: A. Peruashev, "Sdelat' vybor, adekvatnyi razvitiu," *Ekspress K*, No. 113, 22 June, 2006.

⁴ See: B. Zhumagulov, "Liderstvo—eto otvetvenno," *Kazakhstanskaia pravda*, 20 April, 2006.

It seems the outcome of the presidential election was predictable for several objective reasons: with Nursultan Nazarbaev as its head, the country successfully passed the test of economic reform and achieved sustainable growth. In 2005 alone, the GDP grew in real terms by 9 percent; the volume of industrial production by 4 percent; average per capita monetary incomes by 9.6 percent, while real wages increased by 9.3 percent.⁵

Kazakhstan, a multinational republic, has escaped domestic upheavals and liberalized and modernized its society while preserving ethnic and confessional harmony and domestic stability. State development and modernization relied on stage-by-stage democratization and liberation of the initiative of all people irrespective of their ethnic and religious affiliation in the context of continued economic growth and prosperity achieved through competition. The country's leaders, not satisfied with the victories already scored, offered the nation a National Program of Political Reforms designed to synchronize political and economic changes, upgrade the parliament's role, introduce elective local administrators (akims), further develop freedom of speech and mass media, decentralize power, form effective bodies of self-government, and carry out legal and judicial reform.

This is expected to add flexibility and openness to the republic's political system, which would meet the demands and expectations of the people. Kazakhstan should adjust itself to the worldwide democratic trends. President Nazarbaev managed to consolidate the nation and orientate it toward achieving social progress at the most trying moment. This explains why the citizens actively supported the country's leader at the 2005 presidential election.

It is highly important to point out that, contrary to certain statements, Kazakhstan's parties were not an embellishment of the electoral process, which tested them for maturity and professionalism. To a great extent, the political parties' openness made the election process much more transparent and helped develop it along democratic lines.

The electoral campaigns extended the range of political subjects in Kazakhstan as well as offered them new places and roles on the sociopolitical arena. Few of them, however, passed the electoral test and seized the opportunity the elections offered to find their place in the country's political system, partly because Kazakhstan's political context was becoming much more competitive, which was a natural and healthy process.

The 2004 parliamentary elections changed the country's political landscape into a more dynamic and more satisfying scene, the changes being brought about by two key factors—the preparation for presidential election campaign and considerable liberalization of the republic's political system.

The two (parliamentary and presidential) campaigns produced a more or less clear idea of Kazakhstan's electoral map by identifying the electorates' party preferences as well as "floating" and "protest" votes.

Some of the parties tried to identify their electorates on the eve of the election—but it is only the election that confirmed or disproved their conclusions and the effectiveness of their election techniques.

Today there are obvious leaders and outsiders among the republic's political parties. The leading group is made up of Otan, Asar, and the Ak Zhol Democratic Party of Kazakhstan, followed by the Communist Party, the Agrarian Party, and the Civil Party of Kazakhstan.

Some of the parties proved less stable than the others: on the eve of election, Ak Zhol and the Communist Party of Kazakhstan (which describe themselves as opposition parties) split because of profound and obvious ideological differences in the opposition camp, which was responsible, to a great extent, for the balance of forces on the domestic political scene.

⁵ See: D. Ashimbaev, "Slagaemye uspekha," *Kazakhstanskaia pravda*, 7 December, 2005.

Today, the opposition parties now working in Kazakhstan can be described conventionally as “moderate” (Ak Zhol DPK, the Communist People’s Party of Kazakhstan, Rukhaniat, the Party of Patriots of Kazakhstan, etc.) and “active” (the Communist Party of Kazakhstan, the Genuine Ak Zhol DPK, former members of DPK—the Democratic Choice of Kazakhstan, etc.). Their contacts with the government, political convictions, practical steps, and the language of their statements divide them into “moderate” and “active.” The former are critical of, yet prefer to maintain a constructive dialog with the government and the other opposition forces, while the latter are inclined toward uniting all opposition structures to fight the ruling elite.

Recently a new trend became obvious: parties tended to form blocs and coalitions with ideologically close parties that share similar ideas about the government. This process, which involved both the pro-presidential and opposition camps, sped up as soon as the date of the presidential election was announced. It is commonly believed that such alliances differ in the form and degree of their cohesion. Some of them are poorly organized and short-lived: they are, rather, temporary coalitions formed to win elections, remove the government, or support it from time to time. There are stronger units with well-arranged infrastructures that survive for a long time and can even be described as “super-parties.”⁶

Party blocs and joint activities are an evolutionary process; at the same time, this is a sign of obvious weakness in some parties and of their inability to remain in politics on their own. Some of them join forces as a tactical step for elections, others, to survive the election and post-election periods.

In March 2005, the Communist Party of Kazakhstan, former members of the Ak Zhol party, certain other sociopolitical structures, and prominent public figures with no previous affiliations set up a republican public association Bloc of Democratic Forces “For a Fair Kazakhstan” (FFK). This was the first time that most of the “active” opposition forces, represented by the leaders of the officially functioning as well as no longer functioning sociopolitical structures, pooled forces within one movement.

In September 2005, Otan and Asar initiated the People’s Coalition of Kazakhstan election bloc (PCK), which brought together the Agrarian Party of Kazakhstan, the Civil Party, and the Democratic Party of Kazakhstan, as well as a fairly large number of other public associations.⁷

Both coalitions nominated their presidential candidates; both spared no effort to support them and rally as many social groups as possible around them.

Two “moderate” opposition parties—the Ak Zhol Democratic Party of Kazakhstan and the Communist People’s Party of Kazakhstan—acted on their own; their candidates received relatively competitive organizational and electoral support. The Tabigat public ecological movement with M. Eleusizov as its candidate was the least competitive; it failed to rally enough supporters.

Other parties (Auyly, Rukhaniat, and the Patriotic Party of Kazakhstan) had neither adequate candidates nor clear electoral roles and aims. With no place on the Kazakhstani political scene, they were left outside the political process.

The PCK enjoyed the widest support: based on national accord, it unfolded a wide-scale propaganda campaign. The presidential camp demonstrated a high level of consolidation based on its firm ideological foundation. At the same time, the FFK could hardly boast of a similarly high level of ideological cohesion: it was kept together by its opposition to power, the members’ long-term interests and aims being different. The election results confirmed this.

⁶ M. Duverger, *Politicheskie partii*, Moscow, 2002, p. 178.

⁷ See: A.E. Azbergenov, S.A. Diachenko, A.O. Sapieva, “Rol’ obshchestvenno-politicheskikh institutov v period prezidentskikh vyborov 2005 goda,” *Prezidentskie vybory 2005 g. v Kazakhstane: fakty, analiz, kommentarii*, ed. by Zh. Kulekeev, Astana, 2006, p. 42.

As a result, the opposition forces failed to agree on a single candidate, which was their only chance to become more competitive. The pro-presidential front, meanwhile, rallied around one candidate (N. Nazarbaev); the opposition remained split by three candidates (E. Abylkasymov, A. Baymenov, and Zh. Tuiakbay), which baffled the voters. Besides, obvious rivalry inside the bloc undermined its members' positions still further.

The votes cast for the candidates are the best illustration of the parties' performance in the electoral campaign: N. Nazarbaev received 91.15 percent of the votes; Zh. Tuiakbay, 6.61 percent; A. Baymenov, 1.61 percent; and E. Abylkasymov, 0.34 percent.⁸ The ideological disagreements among the opposition forces obviously undermined their positions.⁹

The party's image-making strategy is another factor of competitiveness during the election process: it is created to bring victory in the election and enlist more supporters. An image is the idea of the political party that individuals and the nation as a whole form in their minds.¹⁰ For this reason, all the political parties in Kazakhstan resorted to new political technologies, which helped to greatly shape the nation's electoral behavior. At the same time, the presidential campaign demonstrated that the parties had qualitatively changed their approach to the latest political and information technologies and, consequently, to their PR campaigns: socially oriented promises, slogans and statements reflecting the nation's interests and hopes were lavished on the voters.

Another important factor was directly related to the election campaign: the results brought the parties up to a new mobilization level and changed their methods. The time-tested ones were enriched with new PR approaches and technologies: the party functionaries made frequent trips to the regions to organize rallies permitting the voters to meet the candidates' representatives, party congresses, all sorts of mass entertainments, exit polls on election day, cooperation with youth organizations, etc.

Political parties demonstrated a lot of ingenuity when dealing with the media; nearly all of the parties began their own publications and official Internet sites, and cooperated with the electronic media to reach the ordinary people through them. The Ak Zhol DPK and the FFK party bloc demonstrated the greatest activity, which showed obvious progress in the opposition structures' information policies.

By doing all this, the parties acquired much wider possibilities to lobby their interests: the wider range of information and propaganda vehicles brought more information about the parties to every home. It should be said that the parties were operating in a highly competitive information milieu as well as coping with the information vacuum in remote places. It is highly important to note that the political-technological struggle did not develop into mudslinging and remained on the whole within the legal limits.

The 2005 election taught the parties how to compete within a civilized framework. They acquired the valuable experience of working at the grass-roots level and with the media to stir them into greater election activity. The widely used new PR technologies not only allowed the parties to mobilize their electorates, but also to improve the performance of their grass-roots cells.

Victory was the ultimate strategic aim of all the parties; at the same time, the strategies of the pro-presidential parties, the "moderate," and the "active" opposition were different for obvious reasons. The pro-presidential forces strove to outpace their rivals while demonstrating much more political flexibility and the desire to talk to their political opponents.

⁸ Based on information supplied by the Central Election Committee of the Republic of Kazakhstan, available at [http://election.kz/portal/page?_pageid=73,88928&_dad=portal&_schema=PORTAL].

⁹ See: T. Shaymergenov, "The 2005 Presidential Election in Kazakhstan: Problems and Prospects of Political Liberalization," *Central Asia and the Caucasus*, No. 1 (37), 2006, p. 50.

¹⁰ See: G. Khanov, "Slagaemye politicheskogo uspekha partiy..." *Zhurnal o vyborakh*. Special issue, 2006, p. 110.

During the election campaign, for example, the Democratic Party of Kazakhstan invited the presidential candidates to join the Charter on Basic Principles of Political Rivalry during Elections, the main aim of which was to exclude “dirty” political technologies from the political struggle.¹¹

The pro-presidential parties actively opposed the practice of paid articles and TV and radio programs designed to spread false information as well as abuse of ethnic and clan issues in the political rivalry. The pro-presidential bloc also did much to channel the protest sentiments of socially excluded groups in a more constructive direction.¹²

The “active” opposition structures did their best to discredit the government and undermine the nation’s confidence in the election process. They spoke of massive violations and falsifications, their allegations being nothing more than products of dubious political technologies. It seems that the aggressive and scandalous nature of the election campaign and the attempts to fan information warfare frightened off some of the opposition’s potential electorate. In the final analysis, strategic miscalculations and excessive radicalization defeated the “active” opposition.

As expected, the “moderate” opposition proved more cautious: potentially much weaker than the FFK, the Ak Zhol DPK defeated the “active” bloc by using progressive ideas and displaying a lot of political flexibility. It avoided the danger of being bogged down in political polemics; its criticism of the government was much more moderate, while its approach to the elections much more rational and conceptual.

Undoubtedly, all the opposition parties approached the 2005 presidential election much better prepared than before and much more aware of their potential. They obviously treated the presidential election more seriously: they consolidated the disunited opposition forces and made an attempt to nominate a common candidate.¹³

Aware of their electorate and of the correct electoral tactics, the opposition parties plunged into agitation in the regions and managed, after a while, to win some of the voters onto their side. The opposition was quite clear about the republic’s future as it saw it; it went as far as offering an election program of political and socioeconomic changes. The contradictions and the bitter rivalry among its members, however, undermined these positive efforts and defused what might have become a new impressive and competitive socioeconomic program.

For objective reasons, the opposition platforms remained mere statements of intention rather than action programs, which cost some of the parties rating points. If the opposition forces failed to formulate new conceptual political programs, they might be engulfed by larger and politically more progressive alliances or pushed to the periphery of the republic’s political field.

The pro-presidential sociopolitical forces followed well-substantiated strategies and tactics that allowed them to strengthen the president’s leading position and gain more rating points. The campaign’s main result was that the opposition obviously lost the election battle, while Nursultan Nazarbaev obviously won it. The opposition was clearly not ready to rule the country; the reasons for its defeat were apparent to all.¹⁴

The political parties achieved several practical results in the election campaign: first, a stable and predictable sociopolitical situation; second, a transparent and democratic election process; and third, high political activity of the population.

¹¹ Based on the information of the Khabar information agency, available at [www.khabar.kz/index.cfm?tid=117&PrintID=5617].

¹² See: A.E. Azbergenov, S.A. Diachenko, A.O. Sapieva, op. cit., p. 44.

¹³ Ibidem.

¹⁴ See: A. Lobanov, V. Lukashev, *Pochemu proigrala oppozitsia na prezidentskikh vyborakh v Kazakhstane v 2005 godu?*, available at [<http://www.analitika.org/article.php?story=20051229225355153>].

On the whole, the political parties became much more involved in the republic's sociopolitical processes than before. I hope that the political parties learned some lessons and drew the right conclusions. In the future, the parties might master new, more professional methods.

* * *

The above suggests that after the 2005 election the party development process has moved ahead; the same can be said about the qualitative transformations in the nation's self-awareness. The country has acquired the prerequisites for a new political culture and clearer political values based on the people's adequate perception of social and political reality.

The election process demonstrated that the parties should play a more important role in the state political system; they should formulate ideas and concepts that will move the country ahead. The masses should become involved in the republic's political life to a much greater degree.

The relations between the government and the "moderate" opposition have become more constructive; depending on their election results, some of the opposition parties could gradually become involved in policy-making. The Ak Zhol Democratic Party of Kazakhstan has already demonstrated a rational approach, which gives it a chance to be represented in the power structures.¹⁵ The "active" opposition parties, on the other hand, might lose what influence they have in society if they remain locked in a power struggle; this may even cost them the FFK.

The last parliamentary and presidential elections demonstrated that party coalitions based on shared ideologies have better survival chances in the country's political environment. This is explained, on the one hand, by the political weakness of some parties and the still weak electoral basis of others. On the other hand, there is a desire to reach all electoral segments and consolidate society within one ideological field.

Their electoral experience prompted Otan and Asar, two large parties, to unite into one, Otan party. This happened on 4 July, 2006. Today, it has over 700,000 members¹⁶—a true party giant unheard of in independent Kazakhstan's previous history. They merged because they actively supported the same candidate and shared the same ideological platform and practical cooperation experience within the PCK. The time has come to pool forces and resources for the sake of the national idea, "Strategy for Kazakhstan to Join the 50 Most Competitive Countries of the World."¹⁷ There is information that the "moderately" oppositional Ak Zhol DPK and members of the still unregistered Alga Party are also negotiating a merge.¹⁸

Inter-party alliances are common in Kazakhstan—they are mainly associated with the electoral processes, while one party swallowing another party is a novel feature suggested by the 2005 presidential election.

Objectively speaking, the political parties of Kazakhstan are functioning under adequate conditions, yet not all of them have adjusted to the new environment, as the latest electoral cycle—the parliamentary and presidential elections—demonstrated. Parties should unite into more effective political structures.¹⁹ It is also expected that the next parliamentary and presidential elections will be

¹⁵ See: "Kazakhstan demonstriruet dialog vlasti s oppozitsiei," *Nezavisimaya gazeta*, 16 February, 2006.

¹⁶ See: M. Shimanskiy, "Nadezhnaia energia dvizhenia strany," *Kazakhstanskaia pravda*, 5 July, 2006.

¹⁷ See: *Poslanie Prezidenta Respubliki Kazakhstan N. Nazarbaeva narodu Kazakhstanana. Strategia vkhozhdienia Kazakhstanana v chislo 50-ti naibolee konkurentosposobnykh stran mira. Kazakhstan na poroge novogo ryvka vperiod v svoiom razvitii*, 1 March, 2006, available at [www.akorda.kz].

¹⁸ See: *Protess konsolidatsii poshel!*, available at [http://ompk.kz/portal.php?portal=1&cat=6&art=60].

¹⁹ See: B. Zhumagulov, "Igroki eshche ne adaptirovalis' k novym usloviyam. Podoplioka ob'edinenia krupneyshikh politicheskikh partiy strany," *Liter*, 20 June, 2006.

more competitive and more interesting from the point of view of party activity. All the parties and coalitions should analyze their potential to be ready for them.

Looking back at the last election, it can be said that the republic has reached a new stage of party development at which civil society and the democratization processes will develop still further. The pessimistic forecasts of certain experts about the future of the democratic reforms in the country and their imitation instead of real advance seem unfounded.

It is expected that the coming systemic changes will affect the parties too—there are at least two factors that point to this. First, the 2004 and 2005 electoral campaigns helped the parties identify their weak and strong sides. I think that those parties which adjust their public and political activities accordingly stand a chance of becoming competitive political players.

Second, the newly formed State Commission for Elaboration and Concretization of the Program of Democratic Reforms in the Republic of Kazakhstan chaired by the head of state has set itself the task of developing and strengthening the institutions of a civil society. This means that in the near future the party system will be reformed. The State Commission is a logical development stage of the political reforms. In his statements, President Nazarbaev repeatedly emphasizes that the country is resolved to continue democratic changes and political modernization. The main aim remains the same: a stronger open and democratic state ruled by law.²⁰

Today both the parties and the state need a strong civil society—the main driving force of future constructive developments in the right direction. Two key social sectors—the state and the entities of the party and political system—should become partners to ensure that the political order will remain democratic. A constructive dialog between them will help the country move on to a qualitatively new social model that will determine the Republic of Kazakhstan's democratic status. There is no alternative to the development of party culture through which each and every citizen will gradually identify his/her role and place in the fairly complicated intertwining of private and state interests.

We must admit that to be active and determined while operating in a transition society, the government should be strong enough to concentrate the political will of the majority and shoulder the responsibility for the country's sustainable development. Political parties might provide this strength. Under the new political conditions, when the political process becomes professional, it will be much harder to join the election process and be elected²¹: it will no longer be enough to brandish promises—it will be necessary to fulfill them,²² otherwise the voters, the political culture of whom is gradually improving, will withdraw their support.

The latest election demonstrated that the people of Kazakhstan are not passive observers—they are actively involved in the process of systemic changes. This will bring the desired results: consolidation of the entire nation around the reforms. The political parties are mature enough to express public sentiments. In the course of transformations of the country's political field, their role during elections and the periods between them will gradually increase.

In the near future, it is critically important to develop a multiparty system to make the Republic of Kazakhstan a truly democratic state.

²⁰ See: "Vystuplenie Prezidenta Respubliki Kazakhstan N. Nazarbaeva na pervom zasedanii Gosudarstvennoy komissii po razrabotke i konkretizatsii programmy demokraticeskikh reform v Respublike Kazakhstan," *Kazakhstanskaia pravda*, 25 March, 2006.

²¹ See: G. Khanov, *op. cit.*, p. 110.

²² See: B. Zhumagulov, "Liderstvo—eto otvetstvenno."

INDIGENOUS DIMENSIONS OF “CIVIL SOCIETY” IN KYRGYZSTAN— PERSPECTIVES FROM THE MARGINS

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

This is the first study to address an ongoing gap in current literature on informal patterns of associational self-organization and assertion in peripheral communities of Kyrgyzstan. The study looks at pertinent perspectives and reflections on the meaning of “civil society” in Kyrgyzstan. It raises a crucial policy-tied point that the externally imported concept of “civil society” can have sweepingly different meanings and manifestations in local context. The key corollary of the overall argumentation is that a “standard” donor approach to the phenomenon of “civil society” and the applicability of the term, in its loose meaning, to indigenous environment of patrimonial polities is, in fact, myopic.

In this vein, the following argument made by Roy is not supported by current evidence and field perspectives on traditional forms of self-assertion in Kyrgyzstan: “In the conceptualization based on Western ideas of political and economic freedom (free elections, free markets), “civil society” has to be created from scratch in Central Asia. This is either because there is nothing of value today upon which to build (the entire Soviet legacy being cast as negative)—or because there is no such thing as a traditional society in Central Asia, owing to the onslaught of the Soviet system on previous social structures.”¹

¹ O. Roy, in: *Civil Society in Central Asia*, ed. by M.H. Ruffin and D. Waugh, Center for Civil Society International, U.S., 1999.

Further, the study attempts to unravel complex underpinnings of Kyrgyzstan’s diverse society and communitarianism through exploring the tribal, clan and kinship affiliations as well as community level powerhouses (“*Jama’ats*”), which constitute the informal backbone of individual, social and political behavior in Kyrgyzstan.

Until comparatively recently, of all the Central Asian states, Kyrgyzstan has been the most willing to follow a clear pro-Western political and economic course, including commitment to the development of democracy and open society. However, during last several years then ruling regime started to show the increasing signs of autocratic propensities severely limiting political liberties and civic rights at home.

Gradual backtracking of democratic policies found its expression in direct state interference in the parliamentary election of 2004 widely recognized as rigged and non-democratic. In the same vein, persecution of dissenting politicians and shut-downs of opposition press outlets culminated in political violence and notorious killings of demonstrators in Southern Kyrgyzstan in 2002.

With the backdrop of growing economic morass, endemic corruption and crisis of governance, a severe power struggles between competing tribal elites has only worked to worsen domestic situation. The State as an institution of provision, protection and guarantee has proved unable to perform its functions and secure a politico-eco-

conomic stability. Admittedly, the State has totally failed to exercise its key role in local context of clan-based *corporativism*, that is to arbitrate between influential regional clans and keep a power *status-quo* intact.

So-called “*Civil Society*” failed to exercise its classical Western mission, which is to protect wider citizenry from encroaching intrusion of the State into private and public domains of life. Moreover, it has found itself essentially compromised to build a well-oiled channel of articulation, dialog and negotiation between the State and populace at large. Civil unrest and killings of popular demonstrators in Southern Kyrgyzstan in 2002 have entirely demonstrated an evident policy failure of donors committed to “*civil society strengthening*”—overfunded, top-down and core-based civic groups failed to create effective bridge-building between protestors and local authorities. Thus, national “*Civil Society*” groups claiming to have a mandate from wider spectrum of citizens, in fact, has failed to make that mandate workable, that is to serve as a buttress against expanding State.

The concept of civil society has been hijacked and skillfully manipulated by essentially clan-based dichotomies during recent political upheavals in Kyrgyzstan. Revolution in Kyrgyzstan has produced one obvious indication—*behind-the scene* clan-based antagonism has gained a prominent visibility making the conflict an explicit cause of national implication. Skillfully coupled with democratic rhetoric, Southern clans have managed to mobilize civic groups, thus assuming a politically motivated oppositional stance. Crisis of clan politics has informed a genuine drive for political change and came from upstream clan domains and not from “*Civil Society*”.

The latter, mainly youth groups, played a certain whistleblowing part aftermath the marred parliamentary election though have come to be manipulated and used as a civic standpoint by those regional groups intent on destabilizing political situation and capturing power. Ethno-regional clans have emerged to claim stakes in local and national public arena. The homegrown actors now await to be included in Kyrgyz civil society lexicon and definitions making the concept more closer to local specifics of Kyrgyzstan.

If to look at the phenomenon via local semi-feudal and patriarchal perspective, one will see hurried attempts of foreign paymasters and policymakers to indoctrinate external values and ideas of associational organizing into Kyrgyz context. Recent uprising and ongoing uncertainty have clearly shown a degree to which Kyrgyz perceptions of civic virtues and ideals are sweepingly departed from those of Western ones. Artificial pressure on trajectory of societal evolution in non-Western communities with deeply-seated collective philosophy is counterproductive.

Particularly, conferring a rightful status of a “*Civil Society*” to urban-based instrumental associations and NGOs with no outreach to the poorest in the peripheral fields is a parochial approach. “*Civil Society*” debates have come to be intermingled with organizational debates, by-passing viable importance of local environment in which indigenous organizational forms are emerging and functioning. Arguably, locally rooted forms of social organization and self-assertion such as “*Jama’ats*,” tribal clan loyalties, age-based rural councils and Islamic networks are felt to enjoy better capacities to improve enabling environment and rural livelihoods.

Among those local self-improvement groups are voluminous informally rooted networks holding more authority and social status with local communities. Namely, those are extended households, tribal clans, ethnic identities, old-age, patronage and Mosque webs. Little is known about these unique and locally rooted organizational forms as well as their impact on local development. Thus, the study seeks to inform and feed into current field policy discourse via investigating *jama’ats* and other self-improvement community networks as potential catalysts of social mobilization, grassroots resources and policy change on local level.

Overall, the paper deals with the concept of “*civil society*” and the ways it is understood and misinterpreted on the ground and attempts to figure a way out of conceptual maze and facile perceptions.

The subsequent points attempt to highlight a crucial role and social impact on locally generated development discourses exercised by community-based initiative making groups, such as *Jama’ats*.

How the Concept of “Civil Society” is Perceived or Misperceived in Local Context

The Western backed concept of “civil society” in Kyrgyzstan and Central Asia has found its expression in a wide array of projects and organizational forms with democratization, poverty reduction and civic empowerment as core policy goals. While certain progress was achieved in building capacities for more open society, civil or not, policy discourse and agenda on “civil society strengthening” in Kyrgyzstan have come under excessive ideological influence and biased Western interpretations of what is known as “civil society.”

Extensive donor reliance on highly formalized, pro-status and English-speaking urban-based groups gave rise to exclusivist and elitist proclivities resultant in “bad practice” and favoritism known as “mirror effect.” According to Howell,² “In Central Asia the donor agenda has tended to support environmental, human rights and democracy groups, most of which are located in capital cities. As donors find it easier to deal with professional leaders and representative, which command English and Russian and are at ease with Western Europeans and North Americans, they implicitly reinforce elitist tendency of civil society.” Writing up formal reports on the part of the groups is normally accorded a higher priority rather than gauging social impact of the projects in the field and reaching out the poorest.

The long-term and negative impact of this policy is now becoming increasingly apparent in rural Kyrgyzstan and in the region—growing center-periphery divide, dearth of sustainable grassroots constituencies, cash stress, weak networking, powerlessness, shrinking responsibility, legitimacy and accountability.

Thus, the core problem with donor-driven thinking lies in its inability to acknowledge that creation of numerous formal institutions on the ground does not necessarily lead to straightforward causality with democracy building and vice versa. “Late twentieth-century societies, governments, and parties have embraced the rhetoric of civil society and have claimed they stand for genuine, popular democracy. Yet, both in historical and contemporary terms, this identification is more conceptual than factual.”³

Conversely, indigenously self-regulated community organizations, patrimonial relationships, tribal loyalties, power struggles at micro-level, informal networks, clan hierarchies and faith-based institutions are largely ignored and not acknowledged as “civil” actors on the grounds that they do not interact directly with the State and instead operate within unofficial realm.

“No other form of “civil society” organizations gets a look in. Skewed in favor of legally-registered NGOs, civil society strengthening in Central Asia, like so many other parts of the world, is partial and lob-sided.”⁴ In the same vein, Fowler notes that “to willfully ignore the informal structure of action outside of the state is to deny the very essence of how many societies function and how people survive, collaborate and assert themselves.”⁵

² J. Howell, “Making Civil Society from the Outside—Challenges for Donors,” *European Journal of Development Research*, No. 12/1, 2000, pp. 3-22.

³ L. Roniger, “Civil Society, Patronage and Democracy,” *International Journal of Comparative Sociology*, Vol. 35, No. 3/4, Sep.-Dec. 1994.

⁴ S. Heap, *Civil Society and External Donors in Central Asia. Paper presented at “The Geopolitical and Economic Transitions in Eurasia—International Conference,”* Fatih University, Istanbul, Turkey, 2001.

⁵ A. Fowler, “Strengthening Civil Society in Transition Economies,” in: *NGOs, Civil Society and the State: Building Democracy in Transitional Countries*, ed. by Clayton, INTRAC, Oxford, 1996.

Arguably, this type of approach has impeded the growth of a vibrant and inclusive “*civil society*” in Kyrgyzstan and Central Asia relegating huge parts of non-formal spaces, organizations, practices and values to the back stage. Grassroots reality demonstrates that this is indigenous and “*underground*” institutional framework based on religion, age, solidarity and patronage affinities, which exercises much stronger local legitimacy, authority and wider popular representation.

“More than a decade after independence, democratic reform has made little progress,” argues Lambert⁶ in a survey on Central Asian democratic performance. Similarly, Starr indicates that “...five new states of Central Asia are not fertile soil for the implantation of voluntary associations nor for the growth of civil society.”⁷

Further overlooking inherently existing cultural paradigms and indigenous dimensions of civic expression will be counterproductive to social and political transformation and development process in Kyrgyzstan. In this regard, Roper-Renshaw from Oxfam, for example, warns that “because development is so complex, an organizing concept like civil society is very appealing... However, oversimplifications lead to distortions, poor analysis and poor outcomes.”⁸

Indeed, highly complex traditional idioms, cultural idiosyncrasies and informal practices on the ground give an ample reason to believe that there is more to “*civil society*” in Kyrgyzstan rather than visible sorts of NGOs and other formalized and occupational groups.

“*Window dressing*” reforms and policies in “*democracy building*” programs reinforce a need to revisit early experience and rethink newer concepts of a society based on indigenous and self-regulated values, philosophies and perceptions.

There exists an urgent need to inquire into “*neo-traditional*” and “*archaic*” patterns of associational life in Kyrgyzstan that neatly combines with local collective thinking. Critically, ongoing analysis needs to accommodate a *household-based family, kinship and clan* as entry points in building a workable theoretical base of Kyrgyz “*civil society*”, if we are to advance current understanding of the phenomenon on the ground.

Having identified ongoing perspectives of “*civil society*” as a problem, I will now demonstrate a complex organizational context of the phenomenon and its impact on associational organizing at grassroots level: “We need to look at the indigenous experience and not to Eurocentric models of social change.”⁹

Jama'ats (self-mobilization networks)

As Western concept of “*civil society*,” in its instrumental meaning, has a very limited relevance to patriarchal societies of Kyrgyzstan, one can look for a better-functioning local one. In fact, there are voluminous community-based institutions, functions and relationships evolving out of a traditional social fabric of a society though lacking formal registration. Within rural setting much of the associational life stems from an extended household, the kinship and clan affiliations.

⁶ C. Lambert, “At the Crossroads. A Survey of Central Asia,” *The Economist*, 26 July, 2003.

⁷ S.F. Starr, in: *Civil Society in Central Asia*, ed. by M.H. Ruffin and D. Waugh, Center for Civil Society International, U.S., 1999.

⁸ R.L. Roper, Strengthening Civil Society: the Role of NGOs, *Journal of SID*, No. 4, 1994.

⁹ M. Kaufman, *Community Power and Grassroots Democracy*, International Development Research Center, Zed Books, Ottawa, Canada, 1997.

Associational forms of self-organization and interaction are diverse and happen outside of formal structures providing an important social environment. These occur in a form of routine socializing on a household level, festivities and rituals mixed with Islamic hermeneutics and semi-pagan beliefs, wedding ceremonies with complex procedures and kin get-togethers. Individual communication and networks are especially rooted in such informal social activities as collective praying, conciliation meetings, funerals, regular village meetings and tea-drinking ceremonies of the aged. Based on kin particularities, social bonds and self-regulatory activities are implemented under the cover of closely combined community initiatives, religious affinities and old age.

Against this backdrop, *Jama'ats* (the word has an Arabic origin and connotes a “community of the faithful” and a “group”) are increasingly acting as effective policy mediators on a community level addressing local poverty and unemployment issues through initiating job creation projects and income generating activities.

Jama'ats as self-improvement networks have witnessed a rapid growth over time as key stakeholders and catalysts of social transformation process. These forms are increasingly providing an umbrella for local communitarians and households via mobilizing local resources for rebuilding physical infrastructure.

Indeed, value-based practices are “indigenized” in local context to the extent that these may be wrongfully taken by donor interventions as an institutional hindrance. Donor efforts to formalize and reorganize traditionally and historically conditioned local legitimacy, which props up indigenous structures, may lead to decimation of the whole conventional way of living and organization. Detribalization will accelerate kinship cleavages and erosion of collective identities reducing tribal entities to mere residual categories of peripheral life.

By-passing these unique forms of self-organization and focusing more on highly formalized and urbanized associations may result in the latter appropriating and monopolizing “civil society” ideas (“mirror effect”). Moreover, they may subvert local-level networks which also play a critical part in diffusing grassroots conflicts. As a result, traditional sources of non-formal expressions of “civiness”, as it is understood by, and found relevant to local people, situations and needs may be discredited.

Collective values, voluntarism and kin allegiances are shaped not externally but within community domains where groups members are tied up with kin and neighborhood affiliations.

Since 2003 Yrys Aldy Yntymak, a local *jama'at* community was selected as a focus group by local Public Association called Aibek. Given devastating flooding and mudslides in Kerben town and Chong-Tash village of Aksy District in March 2003, an *ad hoc* community meeting convened by a steering committee of Yrys Aldy Yntymak has decided to construct a dam across the river Avletim. Given the urgency of the situation and limited resources, “*ashar*” method was proposed by a local elderly council (*Sovet Aksakalov*) that received unilateral approval on the part of the villagers.

As of 28 March, local residents launched the project with roles, personal contributions and functions distributed among participants. Elderly Council offered its consulting and advise on the best way to organize technical part of the project. Key laborers included local youths who followed the advise of the aged as the construction required certain know how, skills and experience traditionally held by elderly villagers. Women activists helped men to off-load stones from a tractor and cooked for builders. 16 volunteers were involved in the project and local resources were used: construction timbers were provided by an inland (“*rayon*”) forestry farm.

Limited emergency assistance on the part of the Environmental Ministry in view of budget constraints is another factor encouraging local livelihoods to resort to collective community projects as the only tool available.

Tribal Clans

The Kyrgyz society is characterized by deeply rooted clan identities and kinship reciprocities, which substantially affect and shape politics and power relationships on individual and collective levels. Historically, a social substance of a rural community includes a wide range of actors, practices and networks “*hidden*” under traditional patterns of informal decision making structures. Clan-based “*patron-client*” relations and ethno-regional solidarity groups exert a substantial impact on building and sustaining local identities and elite loyalties.

These include segmental loyalties such as kinship-based networks, ethnic identities, clans, regional elites, clientele and tribal cleavages interwoven into social fabric of the society. “In an effort to locate public and private identities many people have returned to the tribal roots that shaped this region of the world only 70 years ago.”¹⁰ “Historically, nomadic society relied on co-operation and individualism; however, the roots of the Kyrgyz nomadic tradition have been completely erased and Russified.”¹¹

Secluded and exclusive structure of clan-based system of relationships is believed a key reason of why overall political system of representation yields no space for alternative agendas and stakeholders. Thus, an ongoing tussle to shape and monopolize rules of a game between contending groups creates a need to internalize and keep power struggles within the unofficial realm leaving no scope for external scrutiny.

Clan-orientated politics of the state in Kyrgyzstan essentially limits an equal playing field for other civic actors that nurtures public resistance and erosion of trust toward the State. As a consequence, such traditional institutions as the family, clan, kin and tribe nets are becoming highly visible and trusted vehicles of local and regional politics. Put it differently, there is virtually no organizational form of self-expression in Kyrgyzstan, which is totally immune and free from kin allegiances.

Those sorts of structures have a complex system of internal power sharing, agenda setting and regulating power relations. They are closed to external inquires and based on clearly defined linguistic, blood, geographical origins and lineage affinities. Indeed, secluded and unaccountable nature of clan domains breeds deeply running and exclusive systems of patronage wherein patronage is reserved for a small group of friends and intimates.

It should therefore be recognized that democratization and “*pluralization*” of communitarianism within non-official domain of associational life in Kyrgyzstan will not be progressed unless “the interior architecture of tribe is explored. This requires explaining not only the social and moral codes of kinship and tribalism but also, crucially, investigating the ways in which these codes intersect with issues of gender and poverty.”¹²

The clans are managed by a group of senior members who represent the most influential and powerful tribes very often dominated by traditionally revered elderly males. The judgment and final decisions made by elders carry substantial authority and political weight locally and sub-regionally. It comes as no surprise that a majority of local and regional senior officials or business elite are closely affiliated with their tribal and clan associations. In case, any of those seeking a political office, clan and kinship support may make a decisive difference between failure and success.

The key characteristic of a clan structure is its constant producing and re-producing with leverage of powers and resource allocation circulating within clan and tribal stakeholders. They shape political and social demands that a clan makes on the central powers. “It is not a secret that responsible

¹⁰ L.M. Handrahan, “Gender and Ethnicity in the ‘Transitional Democracy’ of Kyrgyzstan,” *Central Asian Survey*, No. 20 (4), 2001.

¹¹ P. Kolsto, “Nation-Building in the Former U.S.S.R.,” *Journal of Democracy*, Vol. 17, No. 1, 1996.

¹² J.M. Lonsdale, B. Berman, *Unhappy Valley volumes*, ed. by J. Currey, London, 1992.

officials of the highest rank come primarily from this or that clan (“*rodovoi klan*”). That is reality. In Kyrgyzstan, no matter where you turn, everyone is someone else’s man.”¹³

Divisions along kith and kin have always been a decisive factor in semi-patriarchal context of Soviet Kyrgyzstan and has gathered in strength aftermath Soviet collapse when semi-feudal system of societal relations took a strong root. Usually numbered in less than a few thousand members, kin groups and individual self-identification along origin have amplified time over and are increasingly seen as a factor of informal social guarantees.

Clan representatives holding key positions in local and regional power base capitalize on their status to strengthen a role and influence of their kin circles. Localism is clearly manifest in the mere fact that “*plum*” jobs are filled in by close relatives and cashflows are concentrated in the hands of intimate confidants of a patron. Accordingly, strategic failure of a patron in micro-power calculations sweepingly dwindles a status of his/her clan group.

Given a disproportional and highly *nepotized* policymaking on both upstream and grassroots levels, it proves fairly easy to manipulate kinship ties and mobilize local resources during elections or clan wrangling. Recent riots and arsons in Southern and Northern provinces of Kyrgyzstan have clearly shown an extent to which a rapid mobilization of clan constituencies to resort to violent means was enabled by kin operatives.

Generically, nor is there a clear-cut power vertical neither a horizontal system of management on upstream political level in Kyrgyzstan. Deeply built in a system of patronized solidarity works to breed permanent competition and struggles for an exclusive access to financial resource base and its re-distribution between various regional loyalties. The latter are equal in power resources and influence on their disposal which creates a balance and makes it difficult for either group to take an upper hand. As a consequence, individual, group and clan interests are taking higher preference in policy-making calculations rendering an effective decision making meaningless.

Characteristically, a severe tussle of corporate stakes between clan elites and groups of influence has gained a prominent visibility in recent Kyrgyz *coup* making it clear that competing clans have deeply plunged in crisis. In pursuit of their narrowly defined interests certain political circles have gone so far as flouting national interests and putting managerial abilities of ruling elite into question.

Conventionally, a latent potentiality for violent confrontation between Northern and Southern clans has been seething since the 1990s and has only seen itself galvanized in pace overtime. The toppled regime has long skillfully manipulated and masked growing demands of regional players by way of trading governmental positions between conflicting elites. Seemingly, this practice has exhausted itself to accommodate grievances of warring factions and, in fact, reinforced disproportions in distribution of power quotas along North and South in favor of the North.

As a key argument for their cause, Southern clans flag up the fact that the agrarian Southern province hosts more than a half of the population of the country and agricultural production caters for the needs of the industrially standstill North. Along with these arguments, Southern representatives voice ideas of relocating key central ministries and agencies from the capital to the South and, even conferring a status of the second national capital to Osh city.

Ethnically mixed up with sizeable Uzbek communities and mainly located in Jalal-Abad and Osh, Kyrgyz influence groups of the South form a backbone of sturdy regional identity and ethnic hierarchy, which share cultural and traditional values of both ethnic groups. In this very sense, a term “*titular*” may not be purely ascribed to Southern elites.

The fact is further amplified by long growing protests of Osh based Uzbeks, who insistently demand to omit an official status labeling them as “*national minorities*.” These developments give a

¹³ E. Huskey, “An Economy of Authoritarianism?”, 2001 (unpublished article).

strong foundation to claim that potential threat of ethno-regionalism and separatism in densely populated areas of Ferghana Valley are possible flash points.

Fuelled by chronically ill economy and eroding regional management, *status-quo* was further frustrated by renewed internal clashes between ruling family and the Southern clans. Skyrocketing antagonism has degenerated into violence and uprising, when Southern clan-turned-democratic-opposition plotted conspiracy bringing a highly unpopular Northern elite down. Thus, failure to bring conflicting clan interests and calculations to negotiating table lie at the heart of recent seizure of power by ousted South and ongoing anarchy in Kyrgyzstan.

Domestic political and economic decision making is successively controlled by two Northern and two Southern clans. Along geographical origins, the North is represented by Chui-Kemin and Talas-Naryn clans. The Southern clans are recruited from two most powerful kin groups inhabiting Aalay and Osh provinces, namely, Ichkilik and Otuz Uul.

Nepotism and localism are two driving factors on the scene that shape collective views, opinions and values (“*anti-values*”) of clan clientele networks. Notably, growing controversies between separate fulcrums of power are provoking inevitable cleavages within clans, thus paving the way for potential intra-clan conflicts.

Rural Councils of the Aged

The *Councils of the Rural Elderly* (“*Aksakals*”—“*grey beards*”) are semi-official and patriarchal community structures comprising of older males coming from various tribal identities. They hold higher status, knowledge and influence in social participation—performing social roles and determining day-to-day custom practices affecting the whole community life. “Because tribalism is ruled through a biological, paternal, kinship lineage, with power reserved for certain essential male biological descendants, tribalism is essentially patriarchal.”¹⁴

An important rationale for elders to hold elevated position socially is that fact that a majority of those are WWII veterans and publicly affiliated with *Rural Councils of Veterans*. Certain Councils include females though overwhelmingly these are underrepresented and their roles carry less weight in key decisions making. Social functions of the elderly entail various forms.

“Council of *Aksakals* is trying to work with the local youth to promote peaceful problem solving. The issues they try to solve involve family problems and students not attending the schools. School officials will alert the Council to students absent from school and then he will visit the home and talk with both parents and children.”¹⁵

As these structures function officially in local village and community municipals, it is them who exercise important “*shadow*” roles in clan hierarchies. The elderly, who enjoy higher social status normally occupy leading positions of *Mullahs* and *Imams* in a Mosque clergy and delivering opinion on congregational practice.

Field visits to *Shamaldy-Say* village in the South, for example, has specifically revealed that local elderly clerics played a critical part in mobilizing resources and labor to build a Mosque. The role of elderly in communal self-mobilization is substantial in that they consolidate and strengthen a practice of “*Ashar*,” which implies an individual and collective contribution offered jointly and voluntarily to accomplish a community project affecting local livelihoods (construction of a school, Mosque or irrigation repair civil works). This, in turn, suggests that community initiatives based on “*mahallya*”

¹⁴ E. Huskey, op. cit.

¹⁵ Help Age International, 2002, Field mission in Jalal-Abad, Southern Kyrgyzstan, U.K. (HAI).

principle of collective coexistence at a neighborhood level are actually getting closely tied up with Islamic consciousness and drive.¹⁶

“*Ak-Mechit*” (“*The White Mosque*”) *jama’at* group was created in 2003 with the aim to improve local livelihoods via implementation of income-generating projects and create jobs for poor households. The group includes 150 households with each household incorporated into 10 units headed by a chair—a *target community*. Each such a community generates its own working capital funds by means of running a business and cattle-breeding with a monthly income saved into household fund facility as a membership contribution.

The *jama’at* activists have undergone intensive training organized by UNDP projects and have produced two successful draft projects for rehabilitation of school buildings in the village. The organizational bottleneck, very characteristic of many *jama’ats* in the area, faced by the group was the lacking of an office premise to arrange member assemblies, keep financial savings, files and policy documents. Local government “*Ayl Okmoty*” was not helpful to solve the problem. As a temporary option, activists arranged ashar and renovated a dilapidated Soviet-built public canteen previously used as a “*chaihana*”, traditional tea-drinking cite for elders and then left neglected. Once it was totally rebuilt via voluntary contributions with one room used as an office and the second given as a resting place for elders, Ayl Okmoty lodged claims that the building legally was a public property.

These demands generated conflict between both sides involved. To escalate the conflict, Ayl Okmoty has launched a lawsuit against the group in order to appropriate the premises. The further initiative was taken by *Aksakals*, who used one part of the premises for their tea-drinking ceremonies. They gathered all vociferous users of the canteen and spontaneously brought themselves to the Ayl Okmoty office to demand their rights. The pressing action proved successful as the authorities stepped down and suspended their claims. To date the canteen is still used as an office and a canteen ensuring an official and informal dimension of community self-organizing.¹⁷

Muslim clerical circles and elder parishioners are increasingly involved into mediation roles in community conflict settlements as “*troubleshooters*” using their knowledge, authority and experience in finding workable solutions. In rural settings main conflict situations arise over ethnic tensions, cross-border commerce, land and water sharing between borderline trading and land growing communities. “An interesting example of a conflict mediated and the role of older people takes place in a bazaar frequented by Kyrgyz, Uzbek and Tajik traders. The local authorities were causing problems by their unfair/unequal treatment of different traders. Trained mediators became involved and now when a local official wants to “check” a trader, he must be accompanied by two persons—a representative from the Village Committee and an *Aksakal*.”¹⁸

The elderly are selected as intermediaries in conflict situations based on their age, local authority, education and a capacity to lobby communal issues at local governing institutions. “These mediators receive training in conflict analysis, negotiation and methods of effective communication as part of the “Kyrgyzstan-Tajikistan Conflict Prevention at Community Level” Project funded by the Swiss Office for International Development. Trained mediators are between the ages of 40-60 and almost always male (not clear if any women have been trained).”¹⁹

As a growing body of field evidence suggests, they have a role in communal conflict solving processes through making judgments on a collegiate base and putting them on public approval. This particular function has led to creation of the “*Courts of the Rural Aged*” that reserve a right to summon and impose informal social pressure and sanctions including ostracism from the community. The verdicts

¹⁶ Personal fact-finding in Jalal-Abad Oblast, 2004.

¹⁷ Personal interview with *Kara-Darya Jama’at* Group, Jalal-Abad, 2004.

¹⁸ *Ibidem*.

¹⁹ P. Hinchliff, *Older People and Institutional Development in Kyrgyzstan: A Report on a Help Age International Visit to Kyrgyzstan, Field mission in Jalal-Abad, Southern Kyrgyzstan, Help Age International (U.K.), 2002.*

made by the Courts are seen as a final appeal to a case before proceeding to the official courts. Thus, the old age groups carry out multidimensional roles in regulating social, legal, custom and spiritual relations on a grassroots level.

C o n c l u d i n g R e m a r k s

If a “*civil society*” concept is still serviceable and applicable to the realities on the ground, two caveats should be entered into wider civic and policy discourse nationally and regionally.

Firstly, there needs to be an urgent shift in perspective from a biased focus on formal associations toward clear-cut *policy* dimensions of civic groups. This is needed in order to expose transformative manifestations of resource mobilization on local level to external scrutiny and analysis. Spontaneously organized protests initiated by the elderly groups, locally generated drive to improve deteriorating livelihoods and traditional projects of self and mutual assistance are important civic activities happening at the periphery of formalistic practices.

Policy-based approach tied up with social impact of grassroots projects needs to be included within civic activities. Otherwise, it would run a risk of being overlooked as such. As noted above, interests articulated by kinship or age groups are not often accommodated on the grounds that those are not purely civic.

Meanwhile, range of detailed policy cases testify to the fact that non-formal activities and policy practices of these indigenous groups interacting with local governments are virtually civic in nature. They remain fundamental to local and regional politics informing a political dimension to key decision making process and actors. “Political language unites people over what to argue about. It provides the images on which they can base their ideologies and ideologies mobilize political support around social divisions.”²⁰

Secondly, it is pivotal to enlarge *key institutional framework of civic action* and include unregistered and semi-official rural networks that generate cash for their voluntary community projects. These groups include micro-credit groups, cooperatives, farmers associations, water users associations, self-help associations and *jama’ats*.

Indigenous community-based networks “*Jama’ats*” identities are increasingly assuming key roles in local micro-politics as policy agents, social capitalists, potential lobbyists and service providers capable of affecting local policymaking and building alliances with other stakeholders thereby contributing to community empowerment and resource mobilization.

Put it plainly, there is a need to ascribe a rightful status to all organizational forms that are informally involved in income generating projects locally to improve their financial situation. Informal economic organizing often plays roles in conflict along the lines of the central State and grassroots societies in that they engender economically strong elite groups locally that are increasingly turned into political stakeholders and claim for more powers on localized and mainstream levels.

“*Civil society*” now awaits to be perceived via the lenses of non-formal grassroots perspectives, realities and values where a resurgent phenomenon of *jama’ats* are now increasingly appear to be acting as social capitalists and intermediators between local policymakers and beneficiaries. Informal environment, Islamic sentiments, clan-based kinship and paternalism need to be emphasized as core organizational values when looking at peripheral patterns of popular activism and self-assertion in Kyrgyzstan.

²⁰ P. Hinchliff, op. cit.

DIALECTICS OF THE EMERGENCE OF A CIVIL SOCIETY AND STATE SUPPORT OF NGOS IN TAJIKISTAN

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A civil society and democracy in Tajikistan are being cultivated on local soil—they are not “alien transplants.” The republic is ready to embrace the great transformation already going on, and the new phenomena have not weakened society’s immunity: we are all eyewitnesses to the birth of a new statehood and stronger national identity that will determine cultural development in the broadest sense of the word. But we must keep in mind that cultural development is impossible without mutual integration of this new statehood and stronger national identity in the spirit of genuine democratization.

However, from the dialectical viewpoint, the process is far from simple: a civil society ruled by law is coming into being by way of many contradictions, difficulties, meandering, and backtracking. As the road leading to a civil society ruled by law, democratization can be visualized as the sum total of numerous development vectors: some of them at times slow down the process, while others tend to miss certain seemingly logical stages by speeding things up.

Talking of speeding up, it should be noted that Tajikistan, as a country at the crossroads between the secular and Oriental religion-intensive civilizations, has moved a long way along one of the vectors of the dialectical continuum. I have in mind the fact that a party of political Islam is functioning successfully in the legal context and is equally successfully integrating into the country’s legal field. This part of the dialectics of the emergence of a civil society ruled by law has far outstripped all similar processes taking place in similar spheres in Tajikistan’s Central Asian neighbors. There is the opinion that political parties do not belong to a civil society, yet the Islamic Revival Party of Tajikistan is not limited to its party structure—its impact on the civil consciousness sector and NGOs that represent the structures and norms of civil society is obvious and tangible.

On the other hand, the establishment and functioning of the institution of ombudsman as a civil society phenomenon present in the Central Asian states (which are not considered democratic enough), but absent in Tajikistan, speak of the erratic nature of the process’s manifestations in the country.

There is an ideological-psychological barrier of sorts that interferes with the acceptance of democratic norms and civil society’s constructive democratic opposition to the state’s spreading influence. This is caused by the emergence of a new statehood in Tajikistan, a process that is still underway, and the specific conditions of the current development stage, which is sometimes described as a “concentration of power.” The barrier can be overcome; to do this we should first fill the vacuum in the consciousness of society and the entities of public and political action with the realization that a civil society and NGOs are the key factors in the sphere of democracy. We should cultivate the idea that pluralism—political and non-political alike—is the cornerstone of democratization in the nation’s life.

We should bear in mind that the ideas of “concentration of power” and “excessive centralization,” which interfere with the more effective development of civil society’s institutions, have not been deliberately elaborated in Tajikistan as a systemic state ideology and theory. These ideas, which belong to everyday political thought, regrettably have a much stronger impact than the declared democratic ideas about the need to develop a civil society. “Concentration of power” is one of the most important processes taking place in the country, which is recovering from the paralysis of armed confrontation. After overcoming this paralysis, “concentration of power” came down with the illness of “excessiveness” in state development caused by a mentality that took several decades to form.

When talking of opposition to the “excessive centralization” process, we should bear in mind the following: there are different centralizations. Centralization and “concentration of power” are absolutely necessary in a country trying to overcome the chaos of civil war and secession (not only ethno-regional, but also institutional). This is a constructive process which re-established the state according to new principles. Here “excessive centralization” means that the civil sector is squeezed out of its sphere to be turned into a functional appendix to central power. In this case, too, we should bear in mind Tajikistan’s specific historical postwar conditions. What forms of opposition to “excessive centralization” of the second type are possible and effective in Tajikistan?

First, as in all developed countries, the right to rallies and strikes for different reasons should be ensured. This right is one of the key democratic elements and a manifestation of civil society. Normally, experts interpret the absence of this form of civil activity as the absence of democracy and a developed civil society.

We should never forget that the civil war syndrome is still alive and that various population groups and the state have acquired specific attitudes to these forms of civil activity. The nation as a whole is apprehensive of rallies and demonstrations as a potential prelude to another civil war. People are not at all sure that individual protesters and members of the power-related bodies are mature enough to avoid violence. The “color revolutions,” a very contradictory innovation indeed, created a context in which any type of foreign activity around Tajikistan is taken as the threat of an “orange revolution” or another civil war. This adds urgency to other forms of civil activities.

Hence the question: is it possible to oppose “excessive centralization” in Tajikistan under these conditions? It is possible, and it is, in fact, taking place.

The already large number of NGOs financially independent of the state should be regarded as an important civil sector in which people have freed themselves from the monopoly of the government and bureaucracy felt outside the civil structures, but completely absent inside them. While the government exerts pressure from the outside, the civil structures are busy building a space that lives according to the new norms and values accepted by a civil society. In other words, an enlarging civil society implies, even hypothetically, a certain amount of personal independence of the members of NGOs and other civil structures. This is a form of opposition to “excessive centralization” of power.

We should not forget that the NGOs are not merely a certain number of structures—they have a specific structural quality with stable contacts, relationships, and forms of activity. This means that they represent a particular stable social structure closely connected with, yet not limited by the state: in other words, it is not the state’s functional appendix.

The dialectics of what is going on in Tajikistan is attracting attention to the creative function of the form of civil spirit that helps mold a new personality type as part of a civil society prepared to accept its values and norms. We should bear in mind that in a civil society the distancing of the individual from the state does not mean that the individual is engaged in anti-state activities, something which the over-eager “pseudo-advocates of a strong state” assert. The individual remains within the system of state relationships and is also part of a civil society as a non-state system.

To be an advocate of a strong state (to pursue a genuine policy of statehood in Tajikistan under current conditions) means to accept democratization with an open heart as the main task of the reviving state. There is no more effective alternative to the country's revival and development.

In the final analysis, a weak state or the worsened position of its agencies can disorganize a civil society. A strong legitimate state by definition should promote dynamic development of NGOs and profit from this. The state should be aware of the potential of a pluralist state consisting of a network of governmental and nongovernmental organizations and use the latter to strengthen accountability, legality, and social justice.

Members of society and the state should agree on the "rules of the game" (the Constitution, laws, taxes, and rights). A civil society should prevent violation of these rules. In fact, society and the state are not merely facing the task of building a civil society and NGOs—forming a new type of individual and culture is an even more pressing task. I mean a civil culture, the culture of a civil society, without which a civil society cannot function and develop successfully. In a certain sense, NGOs are not only the answer to the new challenges of our time (a civil society as the most important task of democratization), they can also help the reviving new statehood in all spheres—health protection, restoration of private housing and farm holdings, peace building, culture and education, etc.

Most of the political activists in the future political parties became political entities within the budding nongovernmental informal structures, some of which were not even legally registered. In this sector, a human environment was created that later developed into various combinations of citizen alliances and associations and, still later, into political parties. Such was the dialectics of Tajikistan's internal progress.

It stands to reason that the key institutions of a civil society cannot develop without socially active people and their voluntary initiative associations called either the third sector or the noncommercial nongovernmental organizations. This fully applies to the development of a state ruled by law. In recent years, the number of NGOs in Tajikistan engaged in helping people and protecting their rights has risen dramatically. Their higher quality is even more important.

Between 1991 and 1 July, 2000, there were 843 registered NGOs in the republic, by 1 July, 2005, their number reached 2,671 and continued to grow. On 1 July, 2006, there were over 2,800 registered NGOs in the country. They maintain contacts with society and its members and are present in all spheres of life: social insurance, education, health protection, the environment, gender equality, and security, as well as human rights. Today, individuals depend on the NGOs for their further development and realization of their potential.

Social partnership between the state and public structures in Tajikistan is ensured by the fact that the country is facing socially important tasks and there is a shared desire to address them successfully. This cooperation allows the sides to use the material basis of state structures, on the one hand, and to attract more people and money to cope with social problems and improve the forms and methods of work by involving public organizations in this effort, on the other. In 1994, the President of the Republic of Tajikistan issued a decree that set up a new structure under the presidential administration—state advisor on public associations and ethnic relations—designed to improve cooperation and coordination with the NGOs; similar structures appeared in the local administration structures, the khukumats.

To create the best possible conditions for the NGOs and their involvement, together with the state, in addressing social problems, the state elaborated, with the help of NGOs, and adopted new laws designed to help people realize their rights in the sphere of social relations rather than to introduce more bans and restrictions.

The state and its institutions are doing their best to arrive at a specific democratization model that will take into account the political and economic realities as well as Tajikistan's cultural specifics. It is in the state's interest to develop the third sector, even though not all bureaucrats share this

conviction. NGOs help realize democratic principles such as freedom of speech and assembly; they promote pluralism of opinions; involve the ordinary people in the social transformation process; help to maintain social stability in the country and attract more resources to cope with social problems.

In fact, the NGOs are effective because they address specific tasks, waste no time, and employ new approaches. It is no wonder that in many countries NGOs that work dynamically, operate on small budgets in the absence of bureaucratic procedures, and employ highly skilled specialists have developed into an effective tool of constructive cooperation between society and the government. Ignoring NGOs or trying to put pressure on them is a shortsighted policy that will deprive the state of the chance to enter into a dialog with society, develop mutual responsibility, and seek and find ways and means to deal with social problems in a manner approved of by society.

The development of the third sector in Tajikistan was not an easy process; public associations needed money—this was the most acute problem. At no time did the funding issue retreat beyond second place among the most urgent problems: this was what the repeated opinion polls conducted among NGO heads demonstrated. Today, smoothly functioning NGOs get their money from international charities or even from foreign governments. In fact, all the public organizations of Tajikistan were formed on foreign money and developed thanks to the financial support of foreign funds. The money was used to buy office equipment, pay for communication lines, and acquire financial management skills. Nearly all of them paid for the rented premises with foreign money. Once the public sector got going, foreign funds were gradually withdrawn from Tajikistan. What is in store for the NGOs?

Nongovernmental noncommercial organizations find it hard to operate in the absence of financial support mechanisms, which the state could realize in the form of grants and social orders, as well as tax privileges for businesses and individuals engaged in charities. The law on public associations says that state structures should support public organizations. What form of support can be described as best?

The time has come to adopt laws that will guarantee the state funding of public organizations. These laws should not only guarantee the fulfillment of state orders, but also ensure that public organizations can realize their own projects in full accordance with their charters. Public organizations suggested that the NGOs receive money from the local budgets (in the form of municipal grants) to carry out their socially useful activities on the basis of tenders. The NGOs could use other forms of support: local self-administration structures can help by renting out offices on easy terms and using local budgets to set up all kinds of clubs and centers. This calls for well-considered decisions and laws that should be adopted as soon as possible.

Legal acts, transferring some functions related to the social support of the people from the public to the nongovernmental sector (for instance, laws On the State Social Order, On State Grants, and On Voluntary Work) and creating a system of tax privileges, would undoubtedly help to deal with many of the social evils. The easy loans and capital base indispensable for NGOs to take off should acquire a legal form: so far many of the public organizations that help the socially vulnerable population groups are operating as voluntary structures. It should also be said that state policies in the sphere of funding—money is indispensable for the sustainable development of a civil society's institutions—would remove the problem of foreign funding. Indeed, if Tajik citizens start spending more on charities, NGOs will need no money from abroad. The state, which wants to use this institution effectively, should create the most favorable conditions possible for those who want to perform socially useful work and thus promote development of an effective civil society in Tajikistan.

There are many problems that remain unresolved: NGOs still receive money from the foreign funds, international organizations, and embassies functioning in the republic. This is mainly European and American (partly Japanese) money—a fact that local bureaucrats treat with apprehension. There is the opinion that foreign money leads to “color revolutions” and creates instability, which means that the third sector, as well as the opposition parties, might play a geopolitical role.

It seems that this calls for a discussion and serious consideration. This aspect cannot be ignored since every misunderstanding between the state and the civil sector develops into wider problems.

Foreign funding may give rise to the fear of potential “geopolitical disruption” between the state and the third sector in critical situations. There is the opinion among the bureaucratic class that this may also cause dissent in the country. I am convinced that this is impossible in principle in our country. This wrong opinion arises from Cold War memories, and it is especially true of our republic.

Today, we are all witnessing unavoidable global tendencies: Russia is inevitably moving closer to the Atlantic countries, therefore the CIS is moving closer to the West. There is the opinion that the SCO (it supposedly unites over half of the planet’s population) was set up as an alternative to NATO, yet facts point to the opposite. Russia has obviously developed an Eastern vector in its foreign policy (which is to be expected because of the wide diversity of Russia’s eastern neighbors), yet today the East, Russia, China, and Central Asia cannot successfully develop without integrating with the Atlantic states and the Western world (this is true of the Atlantic states in relation to the East). To successfully integrate with the rest of the world, we must remove the main obstacle—the negative attitude toward private property we inherited from the past. On the one hand, all the post-Soviet expanse has embraced the market economy, while on the other, similar changes have taken place in China, which recognized private property as a creative force (contrary to what was asserted earlier in the country’s orthodox ideological past).

I have devoted much attention to this aspect because economies play an important role in the civilizations’ mutual attraction or mutual repulsion. Today, there is no chance, no matter how small, that an ideological paradigm could disunite civilizations; there are certain geopolitical distinctions that, in the final analysis, boil down to economic principles, the main being “the highest productivity of each one and joint development in continuous contact with each other” (irrespective of whether we have in mind the CIS or EU, China or America, Russia or Central Asia).

Even though individual leaders do influence the “planetary situation” to a great extent, geopolitics will not be able to divide the world into West and East, as it was in the last century. Indeed, Europe and Russia are mutually dependent on energy supplies. The world is still arming itself, there is no doubt about this—yet there are powerful barriers within the countries for preventing catastrophic opposition among states and imposing a separate development pattern on them. There appears to be no need to expect any global confrontations.

Today Tajikistan is using the integrating opportunity that has presented itself to develop in the eastern and western directions. We are building tunnels, bridges, hydropower stations, dams, plants, and highways. This is brought about by integration into the world economy in every sphere—something that is making us stronger.

As for the “color revolutions,” I should say that there is a profound truth ignored by those who try to frighten us with the specter of instability: undesirable events are not always brought about by realized threats—more often than not a potential victim acting sporadically sets the ball rolling.

Tajikistan has already gone through fire and water; its elite has gained enough political experience for managing and settling conflicts for the sake of stronger stability. During the years of independence the country has learned how to strengthen its statehood and preserve stability. The events in Kyrgyzstan speak not of the third sector’s imagined role in the revolutionary events—some Tajik bureaucrats hastened to heap the blame on the third sector—but of the shortsightedness of the Kyrgyz bureaucrats, who failed to employ factors indispensable for the state’s stability.

We should carefully analyze the “color revolution” phenomenon to avoid any one-sided conclusions. At the same time, we should never forget that our country differs from its neighbors, which were restructuring their statehoods through reforms, being convinced that a new statehood built in this way would be stable enough. As a result, the public failed to acquire a new consciousness, while the political class failed to acquire a political culture that prohibits destabilizing and rash steps. I am

convinced that Tajikistan has outstripped its Central Asian neighbors in the democratization sphere: it has a legally functioning political religious party, freedom of speech and other fundamental freedoms, and, what is more important, a political culture—the result of tragic events. This kind of experience is not something we would wish any other nation. The newly acquired political culture does not permit instability: it is not fear of the state and its punitive structures that prompt people to avoid destabilization, but their own negative experience, the backbone of a political culture.

Under our conditions, people are refraining from “street democracy” not because of centralization of state power, or even its “excessive centralization”: mass rallies are avoided not because of the political system, but because people have recognized their own vulnerability to provocations followed by bloodshed.

Therefore I have every reason to say that the absence of these democratic forms in our country testifies that we have acquired a political culture and that Tajikistan is not a police state (even though its ruling regime is authoritarian). The democratism we have acquired does not permit certain bureaucrats to impose the principles of a military-political system on the nation. Among other things, the very fact that people have acquired a political culture prevents instability. I regret to say that certain “overly solicitous” bureaucrats prefer to ignore this very important stability factor. Hence the fears of easily impressionable people who failed to properly sort things out.

Tajikistan is experiencing a shift toward a civil society in the “state and its subjects” system. This is a contradictory and far from easy process, which is nevertheless steadily moving ahead. The situation in the world, region, and country is conducive to such developments. Democratic processes have become the leading trends in mankind’s development the world over; a system of regional security was set up in the last decade that adds to regional stability (the republic participates in the CIS, OSCE, SCO, OIC, etc.); Tajikistan has not only announced that it is moving toward a democratic society ruled by law, but is realizing this intention by overcoming all difficulties and barriers.

We are all aware of the faults and problems, but we must recognize that the country has moved far along the road toward democracy. We should likewise be aware that there are many difficult tasks, problems, and barriers in store for us: it is too early to rest on our laurels.

We must keep putting one foot in front of the other.

REGIONAL ECONOMIES

EURASIAN ECONOMIC COMMUNITY
IN NEW INTEGRATION CONDITIONS

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The Eurasian Economic Community (EurAsEC) is regarded as the most successful and promising integration project in the post-Soviet space.

This community came into being as the result of an unsuccessful attempt to integrate the newly independent states established after the breakup of the U.S.S.R. within the Commonwealth of Independent States. In effect, this was a manifestation of the partner countries' adequate response to the challenges of our day, and also of their desire to find their own place in a globalizing world and make effective use of their untapped potential in their common interests.

The creation of an international regional economic organization consisting of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan was a logical completion of the process of gradual change in the nature of the association between these five CIS countries, which had taken the road of real economic integration.

The first step on this road was the signing in 1995 of a Customs Union Agreement between Russia and Belarus, subsequently joined by Kazakhstan and Kyrgyzstan and later by Tajikistan. A major stage in the development of cooperation between these states was the conclusion in 1996 of a Treaty on Deepening Integration in the Economic and Humanitarian Fields, which provided for the creation of a "community of integrated states."

The desire to make more efficient use of their production, scientific and technological ties and their economic complementarity for a recovery from the 1998 financial crisis brought the countries of the "Customs Five" to the need for additional measures to accelerate integration. With this aim in view, in February 1999 the five states signed a Treaty on a Customs Union and a Common Economic Space, which set the goals and stages of their advance to an integration community.

Guided by the experience of the European Union and other integration groupings, the alliance members set the following objectives: to complete the creation of a full-scale free trade area without tariff or quota restrictions; to form a Customs Union based on a single customs territory, a common customs tariff and unification of economic and trade regulation mechanisms; and at the final stage to go over to the creation of a common (single) economic space implying the pursuit of a common economic polity, a common market of goods, capital, labor and services, approximation of national laws, and a concerted social, scientific and technological policy.

However, multilateral cooperation practice showed that without a clear-cut organizational and legal structure designed to ensure, first and foremost, the implementation of joint agreements and decisions, the achievement of these objectives was problematic. For this purpose, in October 2000 the partner countries signed a Treaty Establishing the Eurasian Economic Community, designed to switch their interaction to the road of real integration.

The distinctive features of the new alliance consist in its system of governing bodies, decision-making and control mechanisms, budget principles, and allocation of voting rights with due regard for the economic weight of its member states.

Among the Community's main documents are the Priority Areas for the Development of the EurAsEC for 2003-2006 and Subsequent Years.¹ The practical implementation of the set tasks is

¹ See: *Panorama Sodruzhestva*, Moscow, No. 1, 2004, pp. 21-25.

meant to accelerate the creation of a common economic space with the use of effective forms and mechanisms of interaction. The document focuses on joint efforts to realize the partners' common advantages and national interests, to develop a common market by integrating their national markets, and to ensure joint protection against possible economic damage "from outside." The Priority Areas provide for efforts to enhance the potential for countering common economic threats associated, in particular, with intensifying international competition against the background of globalization processes in the world economy, and to create favorable conditions for the free movement of goods, services, capital and labor.

The greatest attention is paid to interaction in the real sector of the economy. In order to realize the transit potential of the Community countries, it is planned to set up a transport union, coordinate tariff policies and simplify customs procedures. In the energy sector, there are plans to develop Central Asia's hydropower resources, improve electricity supplies, address the problems of rational use of water, and move toward a single energy balance. The Community states plan to pursue a concerted agricultural policy, create a common food market, and take steps to reduce the costs of transportation, storage and sale of agricultural products.

In the field of labor migration, it is planned to devise measures for the social protection of migrants, to create an effective system for regulating and controlling labor migration processes, to combat migration-related crime, and to address problems relating to payment of taxes by migrants and their employers.

Five Years in Review

Since its creation, the Community has shown itself as a viable and developing regional association. Despite the difficulties of its rise and development as an economic community, the partners have achieved significant positive results.

After 2000, the EurAsEC countries entered a new phase in their development characterized by a favorable economic situation, steady growth of their gross domestic product (GDP) and production in the key sectors of the economy, and growing foreign trade.

Table 1

Main Indicators of Socioeconomic Development in the EurAsEC Countries²
(2005 as % of 2000, in constant prices)

	Gross domestic product	Industrial production	Gross agricultural production	Fixed capital investment	Exports	Imports
Belarus	143	152	126	185	218	199
Kazakhstan	163	158	131	283	320	347
Kyrgyzstan	120	101	114	71	134	197
Russia	135	130	116	156	236	292
Tajikistan	159	171			116	197

In the past five years, the economies of Kazakhstan and Tajikistan developed most dynamically, with annual GDP growth of 10.3% and 9.7%, respectively. Relatively high annual GDP growth rates were recorded in Belarus and Russia (7.4% and 6.2%). In Kyrgyzstan, annual GDP growth rates were lowest (3.75%), due to a drop in industrial production in 2002 (by 11%) and in 2005 (by 12%). As a result, the increase in industrial production in the past five years (compared to 2000) was only 1%.

Production growth during these five years was insufficient to compensate for the economic regress of the early and mid-1990s.

In 2005, the GDP level of pre-reform 1991 was exceeded by Belarus and Kazakhstan. Considerable differences remain between the EurAsEC countries in economic development levels, the degree of maturity of the market and its infrastructure, and the financial and banking system.

During the past five years, the partners achieved high rates of GDP growth per capita, with increases of 1.7-3.0 times.

Table 2

Gross Domestic Product Per Capita (in U.S. dollars)³

	2000	2005	2005 as % of 2000
Belarus	1,141	3,023	265
Kazakhstan	1,229	3,703	301
Kyrgyzstan	280	479	171
Russia	1,772	5,333	301
Tajikistan	158	340	215

² See: *Statistika SNG*, Moscow, No. 2, 2006, pp. 166-171.

³ See: CIS Interstate Statistical Committee, *Strany Yevraziiskogo ekonomicheskogo soobshchestva*, Statistical Handbook, Moscow, 2006, p. 48.

Nevertheless, during the period under review the EurAsEC countries were unable to even out their economic development levels. Kazakhstan alone managed to maintain its 1.4-fold lag behind Russia's GDP per capita, whereas for the other Community countries this gap even widened. Thus, per capita GDP in Belarus in 2000 was 1.5 times lower than in Russia, and in 2005 it was already 1.8 times lower; the figures for Kyrgyzstan were 6.3 and 11.1 times, respectively, and for Tajikistan, 11.2 and 15.7 times.

In most member countries, financial and foreign exchange markets stabilized, and national capitals and monetary circulation were consolidated. In the absence of sharp fluctuations in exchange rates, national currencies gradually strengthened against the U.S. dollar, the euro and the ruble.

In some countries, the external public debt remained significant: in 2005, the figure for Kyrgyzstan was 77% of GDP, and for Tajikistan, 39%. In Belarus, this indicator was 8.4%, in Kazakhstan, 3.3%, and in Russia, 14.8%. The overall external debt of individual countries has been growing due to corporate borrowing. A very large external debt increases the vulnerability of these economies to serious crises abroad.

It should be noted that during the last five years inflationary pressure on the economy of most EurAsEC countries gradually decreased. In this period, the largest increase in consumer prices was recorded in Belarus (3.5 times), Tajikistan (1.9 times) and Russia (1.8 times). Inflation in some member countries remains high, preventing faster economic growth and a rise in living standards.

In these five years, fixed capital formation grew faster than GDP. At the same time, it is still insufficient for a significant replacement of fixed assets, whose "wear and tear" in the Community countries continues to increase.

The generally favorable economic situation in the EurAsEC countries and measures to develop cooperation have promoted intraregional trade.

The overall volume of mutual trade in the five countries in 2005 amounted to \$54.1 billion, up 85.5% from 2000. As in previous years, the share of trade with EurAsEC members in the total trade turnover was 55.6% in Belarus, 22.7% in Kazakhstan, 47.2% in Kyrgyzstan, 7.8% in Russia, and 25.3% in Tajikistan.

In the Community countries (except Russia), exports in value terms are still lower than imports, which results in a negative trade balance with the alliance partners. In 2005, the trade deficit with EurAsEC countries was \$4.2 billion in Belarus, \$3.6 billion in Kazakhstan, \$287.6 million in Kyrgyzstan, and \$352.3 million in Tajikistan (while Russia's surplus in trade with these countries exceeded \$8 billion). The increase in mutual trade between the Community countries was caused not only by the increase in the physical volume of export and import operations, but also by price changes (especially for fuel, energy and primary commodities).

For all its EurAsEC partners Russia remains the principal trading partner and the main supplier of energy resources. In Russia's foreign trade with the Community countries, Belarus and Kazakhstan accounted for about 97% of its total trade with members of the alliance.

On the Road to a Customs Union

The creation of a free trade area (FTA) in the Eurasian Economic Community has in the main been completed. There is no single EurAsEC agreement on a free trade area: the member countries are guided by the principles formulated in the FTA agreement between the CIS states, and also by bilateral agreements. Today they are working to create a full-scale Customs Union. With this aim in view, they are implementing an Agreement on Common Non-Tariff Regulatory Measures and have adopted

a number of international legal acts designed to ensure the pursuit of an agreed customs policy and to create a single customs territory.

However, the efforts to build a Customs Union are complicated by the fact that they are closely connected with the process of the EurAsEC countries' accession to the WTO. Both organizations address the same tasks: establishment of customs tariffs and regulation of trade and economic relations with third countries.

Within the framework of the emerging Customs Union, work is underway to unify customs tariffs and trade relations with third countries, and this work has to be matched with similar activities carried on by each individual Community state in the course of its negotiations on WTO accession. From the very beginning, the Eurasian partners were faced with an alternative: either they form a Customs Union and then join the WTO as a single regional grouping or each member of the alliance conducts its own negotiations with the WTO and coordinates its position with the other Community states. The alliance chose the second, most difficult way, although it was known, in principle, that it was easier to protect one's interests by negotiating with the WTO from a common position (in the name of the Customs Union). Naturally, a group of countries has a better chance of joining the WTO on more favorable terms than individual countries negotiating on their own.

The possible undesirable consequences of uncoordinated action by individual Community states in the WTO accession process are well illustrated by Kyrgyzstan. Without coordinating its positions with its EurAsEC partners, Kyrgyzstan joined the WTO and reduced its import duties to zero. This made a "breach" in the Community's external border, and this breach was "sealed" in different ways. Uzbekistan, which was not a member of the EurAsEC at that time, closed its borders with Kyrgyzstan altogether and introduced a visa regime. Kazakhstan tightened customs control of goods produced outside Kyrgyzstan. Russia did not take any special measures, because imports from Kyrgyzstan were insignificant and did not have a decisive effect on the economic situation, although the danger of cheap Chinese imports flowing in through that country still exists. In order to prevent this, Kazakhstan is building a protective barrier.

The EurAsEC countries are faced with a specific problem: to prevent significant distinctions between the parties' positions in tariff setting within the Customs Unions and their positions in the WTO accession process. Differences are possible only within certain limits, because wider differences would create insurmountable obstacles to the formation of the Customs Union. That is why the partners are drafting proposals for the establishment of a common customs tariff with due regard for the WTO accession talks. Given the multisectoral structure of the Russian economy, the EurAsEC members (except Kyrgyzstan, which has been a WTO member since January 1998) have agreed to take into account in the negotiation process the terms of Russia's accession to the WTO. No state will seek to hinder any other state in its efforts to join the WTO; Kazakhstan and Russia are already completing their negotiations on entry into that organization.

Another problem is that since 2003 parallel work has been underway to set up a regional integration organization consisting of Belarus, Kazakhstan, Russia and Ukraine. The main objectives of these four countries include the creation of a common economic space (CES), the pursuit of a concerted economic policy, harmonization of legislation, and the establishment of an independent interstate commission on trade and tariffs.

The idea behind the creation of a CES community with exactly the same goals and purposes as those of the EurAsEC was a perfectly sensible one: in the view of its organizers, four states with roughly equal economic development levels would find it easier to create a Customs Union and then a common economic space than countries with widely differing economic development levels.

At this juncture, over 90 agreements have been drafted within the CES framework. The first package of documents, which should provide a legal basis for the formation of a Customs Union within the CES framework, is to be signed in 2006.

Considering Ukraine's "Eurointegration ambitions," its reluctance to advance beyond a free trade area within the CES framework, and its unpreparedness to sign some of the CES documents, the treaty on the creation of a common economic space provides for multi-level and multi-speed integration. Without waiting until Ukraine is ready to accede to the CES documents, Belarus, Kazakhstan and Russia have agreed to move toward a Customs Union. In other words, these three states constitute the core of this grouping, with the understanding that other EurAsEC countries will unite around this core.

As practice shows, the creation of a Customs Union has proved to be a long and difficult process. When five states and then the Eurasian Economic Community started "constructing" a Customs Union, they assumed that the Community members, building on their common production base and former economic ties inherited from the Soviet Union, would be able to create such a union relatively quickly: it was believed that they would only have to adopt the necessary legal documents.

However, the period of "construction" of the Customs Union (1995-2000) was marked by a disruption of former economic ties and a sharp divergence of national legislations and import tariffs in the partner countries, which undermined the basis for the formation of the Union. Whereas in 1995 the level of unified customs duties inherited from the Soviet Union exceeded 90% of these countries' foreign trade commodity nomenclature, by the time of the establishment of the EurAsEC (2000) it was down to 56%. By 2006, the EurAsEC states had managed to raise the level of tariff harmonization to 62%. Today they are aiming to unify their tariff rates and so to lay the groundwork for the creation of a common external customs border.

Another problem is the formation of a supranational executive body which is to be vested with the functions of regulating the external customs border regime, since the main reason for the decline in the degree of harmonization, apart from the partners' differing economic interests, is that all decisions on changes in customs tariffs are now taken by national agencies in the member countries instead of a supranational body. The states will have to take a major political and economic step, to "give up" part of their sovereignty and transfer some of their powers to the international institution they are trying to create.

EurAsEC Enlargement

The most notable event in the life of the Eurasian Economic Community was the accession of Uzbekistan (January 2006). For that country, this meant a sharp turn not only in its foreign, but also in its domestic policy. In his comments on the entry of his republic into the EurAsEC, President Islam Karimov explained that his decision had been influenced by "Uzbekistan's long-term interests in deepening integration processes not only with the states of the region, but also with Russia" and by "the rapidly changing situation in the region and at the global level."⁴

Of course, another weighty argument in favor of integration with Russia was the fact that after the Andijan events Moscow had expressed full support for the actions of the Uzbek authorities.

In joining the Community, Uzbekistan undertakes the commitment to accede to all the agreements in effect within the EurAsEC, and this means significant changes in its foreign economic activity and domestic economic policy.

Uzbekistan will have to abolish the visa regime in its relations with Kyrgyzstan and Tajikistan. It will also have to open its borders to the free movement of goods produced in the EurAsEC coun-

⁴ *Gazeta*, No. 11, 26 January, 2006.

tries. This is necessary to ensure a free trade regime without exception or limitation at the EurAsEC's internal borders. Uzbekistan will also have to make a decision regarding the EurAsEC's common approaches in relations with third countries.

The appearance of a new member has led to changes in budget formulation and in the allocation of voting rights within the Community: Russia has retained 40% of the votes; Belarus, Kazakhstan and Uzbekistan now have 15% each, and Tajikistan and Kyrgyzstan, 7.5% each.

Uzbekistan's entry into the EurAsEC was coupled with another significant event in the post-Soviet space: a merger between two international groupings, the Central Asian Cooperation Organization (CACO) and the Eurasian Economic Community. The main point here is that two organizations which used to duplicate each other have merged into a single system. Whereas in the past their member countries had to divide their time between two international groupings, which led to a waste of efforts and resources, today they have pooled their potentials and expanded their opportunities to address common economic development challenges.

This enables the grouping to find effective solutions to the major problems that faced the two organizations. In particular, they can launch large-scale projects (transportation, humanitarian, water and energy) affecting the interests of all EurAsEC member states.

Uzbekistan's accession to the decision to create a common energy market in the Community will facilitate the solution of many problems. This applies, for example, to the transit of Tajik electricity through Uzbekistan, and also to the use of the Amu Darya and Syr Darya basins. Cooperation in the gas sector will expand as Russia's Gazprom comes to play an active role in the geological exploration and development of gas fields in Uzbekistan, in the renovation of the Central Asia-Center gas transportation network and other projects.

The entry of Uzbekistan with its sizeable mineral resources and its substantial industrial and agricultural potential will give a new impetus to integration processes in the EurAsEC. Uzbekistan is a big Central Asian country in terms of population, and its accession to the EurAsEC will make it possible to create a large market of about 206 million people. All of this will help to enhance the competitiveness of the EurAsEC countries, to resolve energy, water and transportation problems, and to regulate migration flows. Of considerable importance is also the opportunity to deal with matters of ensuring peace and security in the Central Asian region in view of Uzbekistan's "resumption" of its participation in the activities of the Collective Security Treaty Organization.

While noting the positive aspects of EurAsEC enlargement, one should bear in mind that this process at the same time creates a number of problems relating to integration within the framework of the Community.

Uzbekistan, Kyrgyzstan and especially Tajikistan are agricultural countries, while Belarus, Kazakhstan and Russia are industrial ones. Consequently, these two groups of countries differing in economic development levels can complement each other mostly at the intersectoral level, which is bound to present difficulties in the development of mutual trade and the creation of a competitive environment and a single customs territory.⁵ In terms of GDP per capita, Uzbekistan, Kyrgyzstan and Tajikistan rank among the developing countries. They are characterized by high ethnic and political tensions; poverty, unemployment and economic recessions can destabilize the situation both in one country and in the region as a whole.

The Community will have to devise and implement measures to assist Kyrgyzstan, Tajikistan and Uzbekistan in "evening out" economic development levels in order to prevent the differences between the EurAsEC countries from widening still further. This will pave the way for active involvement of these states in the integration process within the Community.

⁵ See: L.B. Vardomskiy, Ye.M. Kuzmina, A.V. Shurubovich, "Yevraziiskoie ekonomicheskoe soobshchestvo: osobennosti i problemy razvitiia," *Problemy prognozirovaniia*, Moscow, RAS, No. 6, 2005, p. 118.

It is important that the appearance of a new member in the EurAsEC should not mean a mere “quantitative enlargement” of the grouping, but should promote its qualitative advance along the road of integration.

As world practice shows, the expansion of an organization without the achievement and consolidation of concrete results is fraught with loss of efficiency. The EurAsEC should find ways of realizing its enlarged potential, but here the Eurasian partners have come up against certain problems.

Integration Difficulties

Despite seven years of cooperation (in February 1999, five EurAsEC countries signed the Treaty on a Customs Union and a Common Economic Space), the partners are still at the beginning of the road to the set goal: a common economic space. The free trade regime was introduced with difficulty, and work on the creation of a Customs Union is progressing very slowly.

At the Minsk Summit of the EurAsEC member states (23 June, 2006), their presidents had to admit that in seven years the partners had been unable to resolve their customs problems and that even the free trade regime was not such in full measure. As President Kurmanbek Bakiev of Kyrgyzstan noted, “the key to economic renewal is trade with lifting of restrictions.”⁶ And President Alexander Lukashenko of Belarus said: “Frankly speaking, this process is not running as quickly as one would like.”

Over the past year, the partners have made no progress in the development of a common customs tariff, although according to the Priority Areas for the Development of the EurAsEC the formation of the Customs Union was to be completed in 2006. At the Minsk Summit, it was decided to prepare the final documents on the Customs Union so as to sign them in 2007.

As a result, the main indicator of integration—the volume of intraregional trade—has been growing much slower than the total volume of the EurAsEC countries’ foreign trade. Thus, their mutual trade in 2005 reached \$54.1 billion, having increased 1.8 times compared to 2000, whereas trade with CIS countries doubled, trade with other states multiplied 2.7 times, and the increase in overall foreign trade was 2.5 times. In the past five years, Belarus trade with Community countries increased 1.7 times, while the increase in the country’s total trade turnover was 2.0 times; the figures for Kazakhstan were 1.3 and 3.2 times, respectively, for Russia, 1.8 and 2.5 times, and for Tajikistan, 1.2 and 1.5 times. Kyrgyzstan alone had a different trend: 2.7 and 1.7 times.

Given these processes, the share of mutual trade between the EurAsEC countries in their total foreign trade turnover fell from 17.2% in 2000 to 12.8% in 2005. A similar trend was recorded in Belarus, where this share was down from 58.8% to 49.1%, Kazakhstan (from 31.7% to 22.7%), Russia (from 10.4% to 7.8%) and Tajikistan (from 31.9% to 25.3%); Kyrgyzstan was the only country where this share increased from 28.8% to 47.2%.

The trade structure remains mostly unchanged. A significant place here belongs to fuel, raw materials and low value added products, which does not promote the development of integration-type relations.

Intra-Community trade is mostly bilateral and is focused on ties with Russia, which in 2005 accounted for 48.8% of total regional trade. At the same time, the share of mutual exchanges between the partner countries in their total foreign trade, with the exception of ties with Russia (ranging from 15.2% to 46.5%), constitutes a very insignificant amount (from 0.03% to 1.4%). Only in

⁶ *Rossiiskaia gazeta*, Moscow, 24 June, 2006.

Kyrgyzstan and Tajikistan the share of trade with Kazakhstan was 16.4% and 8.4%, respectively. All of this shows that ties between the partners are insignificant and do not have a noticeable effect on their economy. Integration has not received a proper impetus from the production and investment sectors of the economy; multilateral cooperation projects have virtually no impact on economic interaction between the partners, and actual integration processes “lag behind” their legal implementation.

The creation of a legal framework for the Customs Union and a common economic space is of exceptional importance for the future of Eurasian integration. It is a matter of developing a legislative basis (“directly applicable” laws) in the customs, foreign trade, tax and other spheres. If this problem is resolved, this will mean that integration has taken place.

The entry into force of the Treaty on the Status of the Fundamental Legislation of the Eurasian Economic Community, the Procedure for Its Development, Adoption and Implementation of 18 June, 2004, means that the EurAsEC members have risen to a qualitatively new level in pursuing an agreed legal policy in the interests of more effective integration. The process of ratification of this document in the EurAsEC countries is nearing completion.

With the expansion of the scale of integration ties within the framework of the emerging Customs Union and in connection with the establishment of a supranational body, the partners’ economic interdependence tends to increase, just as their mutual responsibility for implementing joint decisions. That is why in contrast to the former practice of cooperation between the CIS countries, when agreements were rarely implemented, the Fundamental Legislation Treaty gives special status to the Community’s legal acts that lay down uniform rules of legal regulation in the key areas of mutual relations. With this aim in view, the Treaty envisages a standardized procedure for the development, consideration and adoption of EurAsEC legal acts, and also for monitoring their implementation.

The pursuit of a coordinated legal policy by the Customs Union states also places higher demands on their legislative and executive authorities, which amount to ensuring full implementation of EurAsEC legal acts in national legislation and compliance with them.

The Community countries have started work to coordinate their agroindustrial policies, which should help to reduce poverty, raise living standards and ensure social stability.

The implementation of major investment projects for the construction of hydropower facilities (Sangtudin and Rogun HPPs in Tajikistan, Kambaratinsk HPP-1 and HPP-2 in Kyrgyzstan) will be of great importance for the economic development of the Central Asian region. Mechanisms for distributing electricity between the Community countries, and also for water and energy regulation in Central Asia have been created for the same purpose. In 2003 alone, over 900 million kWh of electricity which had no market at home was supplied from Tajikistan and Kyrgyzstan to Russia through Uzbek and Kazakh networks.

The partners have started creating a common energy and transport space. They have adopted the concept of a common electric power market for the EurAsEC countries, including the development of a fuel and energy balance, and have signed an agreement on the pursuit of a concerted policy to create and develop transportation corridors.

In the sphere of economic policy, the Community countries have got down to a comparative analysis of their socioeconomic programs and preparation of proposals for harmonizing their economic development conditions and for carrying out economic reforms.

The adopted procedure for harmonizing the main macroeconomic indicators of economic development is of great importance for determining the stages of the advance along the road of convergence and integration between the EurAsEC states. At each stage, the parties plan to lay down guidelines for the Community’s development, which include criteria for convergence, sustainability of national capitals, and stability of currencies, prices and financial markets.

The convergence criteria, whose fulfillment is to be recommendatory, include: an annual government budget deficit within the limits of 4% of GDP; a government debt not exceeding 80% of GDP; inflation of no more than 5% above the average inflation rate of the three best performing countries; currency exchange rates and interest rates on credit.

Major steps have been taken to intensify relations in the financial sphere. The parties have approved a concept of cooperation in the field of exchange rate policy and have set up a EurAsEC Council on Financial and Economic Policy (similar to the long-functioning Council of the European Union) to promote the eventual creation of a common market.

No integration grouping can function effectively without common financial institutions. On this assumption, the parties have established a Eurasian Development Bank (EDB) with an authorized capital of \$1.5 billion, one-third of which was contributed by Kazakhstan and the rest by Russia. It is planned to turn the EDB into an instrument for supporting the main socioeconomic programs of the Community countries. Its investment activities will be geared in large part to implement projects in the electric power sector, transport, nuclear and aerospace industries, engineering, innovation and the agroindustrial complex.

Igor Finogenov, elected board chairman of the EDB, has spoken of such long-term financing projects as the completion of the Rogun HPP and Sangtudin HPP-1 in Tajikistan, the Kambaratinsk hydropower system in Kyrgyzstan, the second hydropower unit of the Ekibastuz HPP in Kazakhstan, the creation of Eurasian rail transportation corridors for the purpose of expanding transit freight traffic between Europe and China, the construction of tankers with a displacement of 12,000 tons at the Vyborg Shipyard for oil transportation in the Caspian Sea, the establishment of a joint venture for the assembly of KamAZ trucks and the development of the Zarechnoye uranium mine in Kazakhstan.⁷

In order to attract private sector support for integration projects, a EurAsEC Business Council was set up in the real sector of the economy in February 2002. The main purpose of this association is to support business activity, enhance the social and legal status of its members, and protect their interests in relations with the authorities of the EurAsEC countries. The Business Council partners are interested in restoring economic ties, developing cooperation between credit institutions and cross-border production cooperation, retooling the extractive industries, and improving procedures for cross-border movement of persons and goods.

Development Prospects

The prospects of integration between the EurAsEC countries will largely depend on their successes in implementing major investment projects in the energy sector, transport, industry and agriculture; in creating a level playing field for investors and businesses; and in pooling the financial assets of enterprises, banks, insurance and trading companies.

The EurAsEC countries' accession to the WTO and their adjustment to the requirements of that organization will affect the creation of the Customs Union. WTO membership will accelerate their economic liberalization and approximation of laws, which is bound to encourage business activity. This is particularly important for the establishment and operation of financial and industrial groups, transnational corporations and joint ventures, which are "locomotives" of the integration process.

⁷ See: *Yezhenedel'nik promyshlennogo rosta*, Moscow, No. 19, 2006.

It goes without saying that the EurAsEC's relations with the European Union and the Shanghai Cooperation Organization (SCO) are important factors influencing its development. The EU is one of the main sources of investment for the Community countries, and for Russia, Kazakhstan and Kyrgyzstan it is a major trading partner as well.

The prospects for the creation of a free trade area with the EU are in large part connected with the possible entry of EurAsEC states into the WTO. Partnership agreements (for Russia, the concept of pan-European economic cooperation) are major steps in this direction.

EurAsEC development prospects may also be influenced by relations with the dynamically advancing Shanghai Cooperation Organization, which includes five EurAsEC countries (except Belarus, currently seeking to join the SCO). Apart from combating terrorism, separatism and extremism, the SCO pays much attention to economic interaction. At its jubilee summit in Shanghai (15-17 June, 2006), the SCO set up a Business Council and adopted an action program for the period until 2010 in support of regional economic cooperation between member banks of the SCO interbank association. Joint investment and bank funds will make it possible to finance major transport, energy and telecommunication projects, which will help to eradicate poverty and unemployment and to raise living standards in this large region. The main thing for the EurAsEC in this process is not to "dissolve" within the SCO framework but to pursue its mission and select effective, mutually beneficial and complementary areas of cooperation.

THE OIL AND GAS SECTOR IN KAZAKHSTAN

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Since the turn of the century, the economy of Kazakhstan has demonstrated steadily high rates of growth. Throughout this period the country's gross domestic product (GDP) has kept growing at an annual rate of over 9%. The republic's economic achievements are particularly impressive when compared to the performance of most other CIS countries, which, along with Kazakhstan, are rebuilding their national economies after the breakup of the

U.S.S.R. Even Russia, the largest CIS state, has not experienced such high rates of GDP growth, although it benefits from the current rise in world energy prices to an even greater extent than Kazakhstan.

Naturally, the latter circumstance generates interest in a study of the role played in the republic's economy by the oil and gas sector, the main driving force behind its current economic "boom."

The Oil and Gas Sector and Its Role in the Republic's Economy

In the first few years of Kazakhstan's independence, its top political leaders and (at their suggestion and possibly at their request) the mass media kept talking about the fabulous hydrocarbon reserves of Kazakhstan and of the Caspian region as a whole. Kazakhstan was most frequently compared to Kuwait ("a second Kuwait"), and the Caspian region, to the Persian Gulf ("a second Persian Gulf"). Today, ten years later, when passions have subsided and geological explorations have made it possible to give a more accurate estimate of hydrocarbon reserves in the region, analysts have come up with more reliable and scientifically valid assessments of the hydrocarbon potential of the Republic of Kazakhstan and the entire region.

As might be expected, hydrocarbon reserves in this area have turned out to be much more modest than was believed in the early and mid-1990s. Nevertheless, these reserves are quite significant even on a global scale, and they will play (and are already playing) an important role in the economy of the Caspian states, including Kazakhstan.

According to the CIA World Factbook 2005, proved oil reserves in Kazakhstan at the beginning of 2005 totaled 26 billion barrels (bbl), and in terms of this indicator the republic ranked 12th in the world. The same source put the reserves of natural gas in Kazakhstan in 2005 at 1,800 billion cubic meters (bcm), and here the country was only 16th in the world. According to the same data, the oil reserves of Kuwait, which is sixth in the global oil reserve rankings, totaled 96.5 billion bbl and were 3.7 times larger than those of Kazakhstan. In terms of proved reserves of natural gas, Kazakhstan today is somewhat ahead of Kuwait.¹ Obviously, such a significant difference in the oil reserves of the two countries (in favor of territorially small Kuwait compared to Kazakhstan, whose area is over a hundred times larger) rules out the possibility of defining the latter as "a second Kuwait."

Data from different sources on hydrocarbon reserves in Kazakhstan and in the Caspian region continue to differ widely, but one thing is clear: the republic has significant reserves of hydrocarbons both in the Kazakhstan sector of the Caspian shelf and deep inside the country. Oil and gas bearing regions occupy more than half of its territory (1.7 million sq km out of 2.7 million sq km). As of mid-2005, the republic had 179 registered hydrocarbon deposits, including 87 oil, 17 gas, 30 oil and gas, 25 oil and gas condensate, and 20 oil condensate fields.²

The Caspian shelf is very promising from the standpoint of hydrocarbon reserves in the country. In its Kazakhstan sector with an area of about 100 thousand sq km, oilmen have discovered 96 oil-bearing structures with probable reserves of about 12 billion tons of oil. There are also significant reserves in other parts of the republic, including the fields of the Aktiubinsk group, and also in central, southern and eastern Kazakhstan.³

Kazakhstan's main explored oil reserves lie in three largest fields (Tengiz, Karachaganak and Kashagan). Two of these (Tengiz and Karachaganak) are already under development, and in 2004 they produced a total of over 20 million tons of crude, or more than a third of all the oil produced in the country.

The combination of Kazakhstan's vast oil and gas resources with relatively low domestic consumption, and the rapid increase in oil prices in recent years have turned the oil and gas sector of in-

¹ See: [http://www.photius.com/rankings/economy/oil_proved_reserves_2005_0.html]; [http://www.photius.com/rankings/economy/natural_gas_proved_reserves_2005_0.htm].

² See: A. Klimenko, *Neftegazovaya otrasl Respubliki Kazakhstan: tsifry i fakty*, available at [<http://www.zakon.kz/our/news.asp?id=300118355>].

³ Ibidem.

dustry into a true locomotive of national economic development. In his Address to the Nation in February 2005, entitled “Kazakhstan on the Road to Accelerated Economic, Social and Political Modernization,” President Nursultan Nazarbaev frankly admitted that “*today the main source of our economic growth is exploitation of the country’s natural resource potential.*”⁴ (italics mine.—V.B.).

It is quite true that since 1995 the republic has constantly increased its oil production (see Table 1). In 1995, Kazakhstan produced 20.6 million tons of oil and gas condensate; in 1998, 26.0 million tons, and in 2005 the figure already exceeded 60 million tons (more precisely, 61.9 million tons). In other words, in ten years (1996-2005) oil and gas condensate production in the republic tripled. Oil production alone (excluding gas condensate) has already exceeded 50 million tons per year (50.6 million tons in 2004). Gas production in 2004 amounted to 20.55 bcm.⁵

In 2005, oil and gas condensate production continued to grow (by a total of 4.1%). The production of gas (natural and petroleum) in 2005 was 25.2 bcm, up 22.6% from 2004.

At present, the country’s fuel and energy complex is developing in accordance with the Program of the Government of the Republic of Kazakhstan for 2003-2006, which is part of a broader state program—the Strategy of Industrial and Innovation Development of Kazakhstan for 2003-2006—and the State Program for the Development of the Kazakhstan Sector of the Caspian Sea for 2003-2015.⁶

At the beginning of 2005, Kazakhstan had about 80 producing oil and gas fields. Over 80% of the country’s recoverable reserves of oil and over 70% of its recoverable reserves of free gas (from among the reserves included in the state balance of mineral reserves) were under development.⁷

Table 1

Oil and Gas Production in Kazakhstan

	1995	2000	2001	2002	2003	2004	2005
Production of oil and gas condensate (million tons)	20.6	35.3	40.0	47.2	51.5	59.4	61.9
As % of previous year	101.8	117.2	113.5	117.9	108.8	115.6	104.1
As % of 1990	79.9	136.8	155.3	183.0	199.3	230.4	240.0
Production of gas, natural and petroleum (bcm)	5.9	8.9	9.2	11.3	14.0	20.5	25.2
As % of previous year	134.1	123.3	103.1	123.4	124.1	146.4	122.6
As % of 1990	84.3	127.1	131.4	161.4	200.6	292.9	360.0

Sources: Statistics Agency of the Republic of Kazakhstan, available at [<http://www.stat.kz/stat/index.aspx?p=12-2>]; *EIU, Country Report, Kazakhstan*, October 2000, pp. 26-27; April 2001, p. 26; *Kazakhstanskaia pravda*, 11 March, 2005; *PETROLEUM*: No. 1, 2001, p. 60; No. 1, 2002, p. 84; No. 1, 2003, p. 60; No. 1, 2004, p. 60; No. 1, 2005, p. 63.

⁴ *Kazakhstanskaia pravda*, 11 March, 2005.

⁵ See: *PETROLEUM*, No. 1, February 2005, p. 60.

⁶ See: *Kazakhstanskaia pravda*, 11 March, 2005.

⁷ *Ibidem*.

It should be emphasized that since the early years of Kazakhstan's existence as an independent state its leaders have pursued a proactive policy of attracting foreign capital so as to accelerate the country's economic development. In order to resolve this problem and create a favorable climate for foreign investors, the authorities have adopted a number of special laws, which have already played and continue to play a positive role in the development of the national economy. These include state laws On Foreign Investment, On State Support for Direct Investment and On the Securities Market. In addition, the republic's president has issued decrees containing a list of priority sectors for the attraction of foreign direct investment (FDI) and establishing a system of benefits and preferences for foreign investors. In 1993-2000, over 80% of total foreign direct investment in the national economy went into the oil and gas sector.

The favorable situation in the world hydrocarbon market coupled with Kazakhstan's purposeful policy designed to attract foreign investment have yielded impressive results. In his above-mentioned annual Address (2005), the president said that the amount of foreign direct investment attracted into the country's economy in the years of independence was around \$30 billion. This means that in the period from 1993 to 2004 per capita FDI was close to two thousand dollars. In terms of this indicator, Kazakhstan is way ahead of all other CIS countries.

In recent years, the oil and gas sector has continued to get the lion's share of foreign investment, so that hydrocarbon production has grown faster than production in other industries. As a result, the share of oil production in the republic's total industrial output has rapidly increased. In only three years (1998-2000), this share rose from 16.3% to 39.9%.⁸ In other words, even at the end of the last century crude oil production in Kazakhstan accounted for almost two-fifths of its total industrial production.

In the first few years of the 21st century, rising oil prices have stimulated an inflow of investment into the mining industry, spurring a further increase in oil and gas production; this sector has developed faster than industry as a whole. In 2004, for example, investment in the use of mineral resources was up 33.6% from 2003, amounting to \$9.15 billion.⁹ In 2005, fixed capital investment in the mining industry, in which the oil and gas sector constitutes the greater part, increased by another 43.7% (see Table 4 on p. 52).

Every year, new fields are brought on stream and new companies enter the oil production business. The main role in the development of oil fields and oil production in the republic is played by seven companies, which account for almost 86% of oil production in the country. The largest one is Tengizchevroil, which operates in the Tengiz field. In 2004, it produced 13,320 thousand tons of oil, or 23% of all the liquid fuel produced in the republic.¹⁰ And Karachaganak Petroleum Operating produced 8,524 thousand tons of oil, or 14.4% of total oil production in the country.¹¹ The largest oil producers also include OJSC MangystauMunayGas and KazMunayGas Exploration and Production. The latter was created in April 2004 through a merger of two large companies: UzenMunayGas and EmbaMunayGas. All the leading oil producing companies in Kazakhstan, with the exception of KazMunayGas Exploration and Production, have foreign investors.

Out of the three largest oil fields, the Kashagan field is the only one where commercial production has not yet started. As officially announced in June 2002, this field holds 7-9 billion bbl of oil, or not less than 1 billion tons.¹² It is assumed that Kashagan will be the main source of an increase in oil

⁸ See: *Kontinent*, 27 December, 2000-15 January, 2001, p. 19.

⁹ See: *Kazakhstanskaia pravda*, 11 March, 2005.

¹⁰ See: *PETROLEUM*, No. 1, February 2005, p. 60.

¹¹ *Ibidem*.

¹² See: S. Tsalik, *Natsionalnyi fond Respubliki Kazakhstan*, Almaty, 2004, available at [[http://www.kazakhstanrenewwatch.org/files/chapter_6_\(rus\).pdf](http://www.kazakhstanrenewwatch.org/files/chapter_6_(rus).pdf)].

production in Kazakhstan when the Tengiz and Karachaganak fields, the current leaders in the amount of oil produced, pass their production peak.

Rising hydrocarbon prices and recently improved transit opportunities tend to boost the production of oil and gas in the republic for the purpose of increasing their exports. As regards the domestic consumption of liquid fuel in the country, it remains relatively constant and makes up only a small share of its total production volume. In 2004, overall exports of oil and gas condensate amounted to 52.4 million tons, or 88.2% of their total production (59.4 million tons). Let us recall for comparison that in 1999 oil and gas condensate exports amounted to 23.7 million tons. In other words, in only five years (1999-2004) the republic increased its exports of natural liquid fuel more than 2.2 times (see Table 2).

Table 2

Oil and Gas Condensate Exports

	1999	2000	2001	2002	2003	2004	2005
Exports of oil and gas condensate (million tons)	23.7	29.0	32.4	39.3	44.3	52.4	52.4
As % of 1999	100.0	122.4	136.7	165.8	186.9	221.9	221.9
Export earnings (million dollars)	2 036	4 346	4 262	5 037	7 020	11 400	17 395
As % of 1999	100.0	213.5	209.3	247.4	344.8	559.9	854.4
<i>Sources:</i> [http://www.rusenergy.com/newssystem/opened/37/20051115/430500.htm]; [http://www.kki.kz/cgi-bin/index.cgi?nc1390&dbid=null&version=ru]; <i>PETROLEUM</i> : No. 1, 2000; No. 1, 2001; No. 1, 2002; No. 1, 2003; No. 1, 2004; No. 1, 2005.							

The increase in export earnings from oil and gas condensate supplied to other countries is even more impressive. In 2003, exports in volume terms increased by 13% compared to the previous year (from 39.3 million tons to 44.3 million tons), whereas in value terms (in view of the rise in world oil prices) export earnings from these products increased by 39% (from \$5,037 million to \$7,020 million). As a result, the share of oil and gas condensate in the republic's exports in 2003 was 54.4% in value terms, significantly exceeding the total earnings from all other export items.

This trend continued in subsequent years as well. In 2005, the republic exported 52.4 million tons of oil and gas condensate (just as much as in 2004), but the revenues from the sale of equal amounts of these raw materials differed widely: in 2005, export earnings were 52.4% higher than in 2004 (see Table 2).

In recent years, the share of oil and gas condensate in the country's total exports has been growing steadily. In other words, there has been a significant change in the export structure in value terms. *Given the general and most impressive increase in the volume of Kazakhstan's foreign trade, its exports in value terms are increasingly dominated by the purely raw material component, so that the republic tends to acquire features peculiar, first and foremost, to the developing countries.* Thus, crude oil and gas condensate now account for more than three-fifths of the republic's total exports (62.5% in 2005).¹³

¹³ Calculated by the author from: [<http://www.kki.kz/cgi-bin/index.cgi?nc1390&dbid=null&version=ru>].

It should be specially emphasized that the two key factors mentioned above—the increase in the physical volume of hydrocarbon exports and especially their rising prices in the world market—have also ensured an unprecedented increase in Kazakhstan's total export earnings. *In only two years (2004-2005), Kazakhstan exports more than doubled in value terms from \$12.9 billion in 2003 to \$27.8 billion in 2005, when the country's trade surplus reached \$10.5 billion.*

Apart from oil, the republic has also recently increased its production and exports of gas. In 2004, it produced 20.55 bcm of gas (up 46.4% from 2003). Exports that year amounted to 7 bcm, an increase of 17.1% compared to the previous year.¹⁴ And although the republic's export earnings from gas do not yet run into billions but only into millions of dollars, they further increase the raw material component of Kazakh exports. In the long term, gas exports will amount to tens of billions of cubic meters, and their share in the country's total exports may increase considerably.

Kazakhstan's growing export earnings from hydrocarbons have enabled it to set up (in August 2000) a special **National Fund**, which began functioning in June 2001. It is modeled on Norway's State Petroleum Fund. Its constituent documents determine the purpose of the Fund as follows: "to stabilize the country's socioeconomic development, accumulate savings for future generations and reduce the dependence of the economy on negative external factors." Consequently, the Fund has two main functions: stabilization and saving.

The Fund performs its stabilization function by accumulating tax payments from enterprises of the natural resource sector, excess profits tax, all kinds of bonuses and other receipts. The stabilization component depends on a reference price for oil, which is set for five years. In 2000, this price was established at \$19 per barrel. If oil prices exceed this level, the excess earnings from the sale of liquid fuel go into the National Fund. And if world prices fall below this level, the National Fund will have to transfer the difference (a dollar amount equal to the loss in income) into the state budget. Mining companies take part in the creation of the National Fund under comparable guidelines, though naturally based on a separate reference price.

The savings portfolio of the Fund is made up of special transfers from the budget in the amount of 10% of budgeted tax revenues from enterprises in the natural resource sector, and also investment earnings from the operation of the Fund and some other receipts.

The Fund received its first deposit (\$660 million) in 2001, after the sale of a 5% government stake in the Tengizchevroil consortium. In October 2003, according to the National Bank, the Fund's assets already amounted to \$2.81 billion. In 2004 and 2005, the rapid rise in oil prices generated a further intensive flow of money into the Fund, so that by 16 December, 2005, it had accumulated over \$6.57 billion.¹⁵ In other words, only in the past two years or so (from October 2003 to December 2005), the assets of the National Fund, which in effect accumulates excess earnings from hydrocarbon sales, multiplied 2.34 times.

Kazakhstan was the first CIS country to create such a structure for ensuring the country's stable socioeconomic development and reducing its dependence on negative external factors. Although the National Fund performs positive functions for the republic's economic development, its activities have often been criticized by the opposition and some public circles. Their main complaint is the closed nature of its work and lack of proper control over it, primarily on the part of parliament. In the opinion of critics, this creates an opportunity for misappropriation of part of the national wealth by persons who have access to the Fund. They say that the scandal in April 2003 over the arrest of James Giffen, an oil advisor to the Kazakhstan authorities and an American citizen accused of concealing oil revenue and transferring millions of dollars to the bank accounts of high-ranking Kazakhstan officials (so-

¹⁴ See: *Neftegazovaia vertikal*, No. 5, 2005, available at [<http://www.ngv.ru/magazin/view.hspl?id=2528&mid=98>].

¹⁵ See: Statistics Agency of the Republic of Kazakhstan, *Kratkie itogi sotsialno-ekonomicheskogo razvitiia RK za ianvar'-dekabr' 2005*, available at [http://www.rakhattv.kz/show_news.asp?NewsID=10224].

called Kazakhgate), proves the need for greater transparency in the matter of control over receipts from the sale of products of the republic's oil and gas industry.¹⁶

Serious grounds for criticism of the National Fund's activities are also provided by the fact that it invests its money abroad, so actually subsidizing, in the opinion of the opposition, the economy of other (mostly Western) countries, including the U.S., instead of serving as a source of finance for the development of sectors of the Kazakhstan economy not connected with the production, processing or transportation of the republic's oil and gas wealth.

Another circumstance noted by critics is that Western investors mostly put their capital in the highly profitable oil and gas sector of the economy, making big profits. Moreover, they have an opportunity to derive additional benefits from the part of the state's oil revenue that goes into the national Fund and is then invested in the West.

Successes in Socioeconomic Development

Radical economic reforms and the extremely favorable (for oil and gas exporters) situation that has taken shape in the world hydrocarbon market in recent years have considerably improved the country's financial position. Back in 2000, Kazakhstan was the first post-Soviet state to repay all its debts to the International Monetary Fund (IMF), doing this seven years ahead of schedule. The public debt as a share of the country's gross domestic product has been constantly shrinking. In 2000, Kazakhstan's public debt (excluding intercompany obligations under oil and gas projects) amounted to 21.7% of GDP.¹⁷ By the end of December 2004, the figure was down to 13.7%.¹⁸ The situation with the state budget has markedly improved as well. Whereas in 1999 the budget deficit amounted to 3.5% of GDP, in 2003 it was down by almost two-thirds to 1.2%.

In 1999-2004, overall GDP growth in the republic came to about 55%. *In 2005, Kazakhstan's gross domestic product was 7,453 billion tenge (\$56.8 billion) and exceeded the GDPs of all the other seven post-Soviet countries of Central Asia and the Caucasus (Uzbekistan, Kyrgyzstan, Turkmenistan, Tajikistan, Azerbaijan, Georgia and Armenia) taken together.*¹⁹ And this despite the fact that the total population of these seven countries is four times larger than the population of Kazakhstan.

In 2005, industrial production in current prices amounted to 5,124.1 billion tenge, with an increase of 4.6% compared to 2004. An important point to note is that for the first time in the past few years production growth rates in the mining industry (3.2%) in 2005 were lower than growth rates in manufacturing (6.0%).²⁰

Good results were also recorded in the agricultural sector. In 2005, agricultural production in current prices amounted to 763.2 billion tenge, up 7.3% from 2004.²¹

Growing oil revenues make it possible to increase fixed capital investment and so to create favorable conditions for long-term development of the national economy. In 2005, fixed capital investment totaled 2,205 billion tenge, or 22.1% more than in 2004.²²

¹⁶ See: *Natsionalnyi fond Respubliki Kazakhstan*, p. 32.

¹⁷ Ibidem.

¹⁸ See: [<http://state.gov.r/pa/ei/bgn/5487.htm>].

¹⁹ Calculated by the author at the official exchange rate of the national currencies against the U.S. dollar.

²⁰ See: Statistics Agency of the Republic of Kazakhstan, *Sotsialno-ekonomicheskoe razvitie Respubliki Kazakhstan v ianvare 2006 goda* (operational data), Almaty, 2006, p. 9, available at [<http://www.stat.kz>].

²¹ Ibidem.

²² Ibid., p. 10.

Successes in the development of the national economy are also reflected in the social sphere. In particular, there has been a steady increase in household income and wages (real as well as nominal). In his Address to the Nation in February 2005, President Nazarbaev said that household income in Kazakhstan had increased by an average of five times and that average monthly wages had risen almost six times, while the minimum wage had multiplied 25 times. The increase in the average monthly pension was 4.6 times.²³

The rapid rise in wages, pensions and household income continued in 2005. Thus, the average monthly nominal wage in the republic in 2005 was 34,066 tenge, or 20.5% higher than in 2004, while the real wage increased that year by 12.0%. In January 2006, the average monthly nominal wage was already 44,956 tenge, or 26.1% higher than in January 2005 (in real terms, the increase was 17.3%).

In January 2006, average nominal household income per capita reached, according to preliminary estimates, 19,589 tenge, going up by 26.2% from January 2005. In real terms, per capita household income in January 2006 was 17.4% higher than in January 2005.²⁴

Table 3

Gross Domestic Product and Wages

	1999	2000	2001	2002	2003	2004	2005
GDP (in billions of tenge)	2,016.5	2,599.9	3,250.6	3,776.3	4,449.8	5,542.5	7,453.0
GDP (in billions of dollars at the official exchange rate)	16.85	18.29	22.15	24.64	29.75	42.3	56.8
GDP per capita (in dollars at the official exchange rate)	1,129	1,229	1,491	1,658	1,996	2,801	3,737
Average monthly wage (in dollars at the official exchange rate*)	99	101	118	132	152	211	259
* Author's calculations.							
<i>Sources:</i> Statistics Agency of the Republic of Kazakhstan, available at [http://www.stat.kz/stat/index.aspx?p=10]; [http://www.historycentral.com/NationbyNation/Kazakhstan/Economy.html]; [http://www.unsiap.or.jp/participants_work/cos03_homepages/group4/kazakhstan.htm]; [http://www.infomarket.kz/pavlodar/index.php?id=1754&a=1].							

²³ See: [http://www.president.kz/page.php?page_id=32&lang=l&article_id=52].

²⁴ See: Statistics Agency of the Republic of Kazakhstan, *Sotsialno-ekonomicheskoe razvitie Respubliki Kazakhstan v ianvare 2006 goda*, p. 10.

On 1 July, 2005, the state began paying out to all pensioners, irrespective of their work record or the size of their awarded pension, an additional basic pension subsidy in the amount of 3,000 tenge. As a result, the minimum pension rose to 9,200 tenge, and the average pension exceeded 12,000 tenge.

An increase in bank deposits by individuals and in deposits per capita is a reflection of rapidly rising living standards in Kazakhstan. In ten years, they multiplied 35 times and 37 times, respectively. In 2005, household deposits continued to grow rapidly, and at the beginning of 2006 they totaled 587.3 billion tenge, or 33.1% more than a year ago.²⁵

There has also been a significant increase in public outlays on maintaining a guaranteed level of free medical assistance. In 2004 alone, they increased 1.7 times compared to 2003. In 2003, the state began paying out a lumpsum birth grant. Public spending on education and culture has markedly increased as well.

Oil and the National Economic Development Strategy

In view of its high profitability, the oil and gas sector is pivotal to the government's long-term economic plans for the next 10-15 years. First of all, they provide for a further increase in the production and sale of hydrocarbons. By 2015, the government plans to bring oil production up to the level of 150-170 million tons per year, and gas production, to about 80 bcm per year. With this aim in view, it is planned to ensure active exploitation of the largest new oil and gas fields, which should eventually provide the main increase in the production of these valuable energy resources.

A solution of this problem requires significant capital investment. In 2004, it was decided to allocate \$29 billion for the development of the recently discovered (2000) Kashagan field, the largest oil field in Kazakhstan and one of the largest in the world. Production from this field was earlier postponed because of delays in its exploration and is due to begin in 2007-2008. By 2015, oil production from this field alone is to reach 56 million tons per year²⁶ (no less than a third of total projected production).

In 2002, work was started on yet another major project for oil exploration and production at the Kurmangazy field, located at the juncture of the Kazakh and Russian sectors of the Caspian Sea. In July 2005, the two countries signed a production sharing agreement for this field, whose reserves are tentatively estimated at about 980 million tons of oil.²⁷ This 55-year project will require \$22-23 billion worth of investment, and the profit from its implementation is estimated at \$50 billion.²⁸

The projected increase in oil and gas production and exports calls for an expansion of the oil and gas transportation network, and also for an increase in the capacity of existing pipelines. Another highly important task facing the government of Kazakhstan is to reduce the country's continued dependence on Russia in matters of oil and gas transportation to world markets.

On 25 May, 2005, President Nazarbaev took part in the opening ceremony for the Azerbaijan section of the Baku-Tbilisi-Ceyhan oil pipeline. During the visit he said, among other things, that "Kazakhstan regards the oil pipeline as one of the major routes for the transportation of its oil to world markets."²⁹ He noted that Kazakhstan's participation in this project was due to the republic's commit-

²⁵ Ibidem.

²⁶ See: [http://www.mirtv.ru/news/5/3222_1.htm].

²⁷ See: [<http://www.rg.ru/2005/07/06/rossia-kazakhstan-anons.html>].

²⁸ See: [<http://www.nr2.ru/center/31682.html>].

²⁹ See: [<http://ngv.ru/magazin/view.hspl?id=2764&mid=106>].

ment to the idea of multivector oil transportation routes. In practice, this idea primarily signifies less dependence on Russia in matters of hydrocarbon exports to other countries. In the long term, when Kazakhstan gets down to full-scale exploitation of its Caspian fields, its oil exports along the Aktau-Baku-Tbilisi-Ceyhan route could reach 20 million tons per year.³⁰

In mid-December 2005, an opening ceremony was held in Kazakhstan for the new Atasu (Kazakhstan)-Alashankou (PRC) oil pipeline, which is to become the republic's first oil export pipeline of its own. Starting from mid-2006, the republic is to export its oil along this route bypassing Russia. At the first stage, this 988 km pipeline will have a capacity of 10 million tons of oil per year, with a subsequent increase to 20 million tons.³¹

The strategy for enhancing the country's oil and gas transportation potential includes the creation of a national tanker fleet so as to lay yet another full-fledged route for oil exports. The first three Kazakh oil tankers (*Astana*, *Almaty* and *Aktau*, built in St. Petersburg) were launched in 2005-2006. The Aktau Port was renovated, and its export capacity was increased to 10 million tons of oil per year.³² From this port, oil is transported by tanker to Baku and Makhachkala. In mid-2005, about 80% of Kazakh oil was transported by pipeline, about 12% by rail, and roughly 7% by water.³³

In order to ensure the planned increase in gas production to 80 bcm (or even more) per year by 2015, the national company KazMunayGas has begun preparatory work for the development of the large Amangeldy gas field. It is also conducting seismic surveys at other gas fields in southern Kazakhstan. In the long run, the company is planning to explore and develop hydrocarbon reserves in the Kazakhstan sector of the Aral Sea.³⁴ In formulating Kazakhstan's gas export strategy, the authorities primarily take into account the import requirements of neighboring China. Today they are considering and evaluating various gas pipeline options for the supply of Kazakh gas to the PRC.³⁵

The country's government has recently given more attention to the problems of oil refining and production of oil products. The aim here is not only to meet the republic's domestic demand for oil products, but also to increase their exports. *Paradoxical as it may seem, a country that has become one of the world's prominent oil exporters is still obliged to import oil products for its own needs.*

The total capacity of all three oil refineries in Kazakhstan adds up to only 18.5 million tons of crude oil per year, with annual oil production in the republic already exceeding 60 million tons. Nevertheless, even these refineries would be able not only to meet the country's domestic demand, but also to produce for export, but until recently they operated at less than half of their capacity. In 2004, the situation somewhat improved, but even the refinery with the highest capacity utilization rate (Atyrau) operated at only 61.1% of its capacity, whereas the Pavlodar Refinery, for example, had a utilization rate of only 38.7%.³⁶ And this at a time when up to 40% of the republic's domestic demand for fuel and lubricants (especially in its northern and central regions) is covered by imports.³⁷

The "underutilization" of oil refineries is due, among other things, to the fact that control over the oil produced in the country is in effect exercised by foreign companies, which produce 84% of all the oil in Kazakhstan. The latter are not interested in selling their oil within the country in view of low

³⁰ See: [<http://www.centrasia.ru/newsA.php4?st=1115552760>].

³¹ See: [<http://www.agroline.ru/news/gazeta/2005/12/15/32.html>].

³² See: *PETROLEUM*, No. 1, 2005, p. 20.

³³ See: [<http://www.centrasia.ru/newsA.php4?st=1115552760>].

³⁴ See: [<http://www.promgastorg.ru/print.php?sid=391>].

³⁵ Ibidem.

³⁶ See: [<http://www.zakon.kz/our/news/news.asp?id=30024385>].

³⁷ See: *Almaty INFO*, 25 December, 2004, available at [<http://Eurasia.org.ru/cgi-bin/datacgi/database.cgi?file=New&report=SingleArticleRu&ArticleID=0008550>].

domestic prices. After paying their taxes, they prefer to export crude oil mostly to offshore zones and so to make a big profit.

In spring and fall, at the height of agricultural works, the republic experiences a shortage of oil products. The government has repeatedly been obliged to restrict the export of liquid fuel in an attempt to provide the agricultural sector with relatively low-priced fuels and lubricants, but such measures cannot bring about a radical solution of this problem. The republic continues to import oil products from abroad, and their prices in the domestic market continue to grow. In 2004 alone, gasoline imports increased from 500 thousand tons (2003) to 802 thousand tons³⁸ (by 60%).

On the other hand, it is common knowledge that exports of oil products are more economical than exports of crude oil. In recent years, the country has increased its crude oil refining volumes and exports of oil products. In 2004, for example, Kazakhstan exported 321.4 thousand tons of gasoline, or 70% more than in 2003.³⁹ Nevertheless, the republic remains a net importer of gasoline. The trend toward an increase in the production of oil products and their exports continued in 2005, when the country produced 11.17 million tons of oil products (18.7% more than in 2004),⁴⁰ of which 3,484.4 thousand tons were exported. This is 50.6% more than in 2004. However, overall crude oil exports still far exceed (about 15 times)⁴¹ the exports of oil products, and in this respect the republic lags behind Russia, where this indicator is much lower (2.8 times in 2004).⁴²

The significant successes achieved at macro level in Kazakhstan's national economy in recent years cannot veil the serious problems connected with the oil and gas "bias" in its development. As noted above, the extremely high profitability of the mining industries and especially of oil and gas production makes this sector particularly attractive to domestic and foreign investors, whereas less profitable manufacturing does not receive sufficient investment, with numerous negative consequences.

In fact, in terms of profitability the oil and gas sector far surpasses all other sectors. Thus, cost per tenge of sales in crude oil and natural gas production in recent years has been about 1.5 times lower than in the national economy as a whole. And compared to the situation in some branches of the economy this difference is really glaring. In 2002, according to the Statistics Agency of the Republic of Kazakhstan, cost per tenge of sales in crude oil and natural gas production was 0.39 tenge. At the same time, in manufacturing the figure was 0.68 tenge, in the production of machinery and equipment, 0.81 tenge, in construction, 0.85 tenge, and in agriculture and forestry, even 0.91 tenge.⁴³

Simple calculations show that in 2002 one tenge invested in oil and gas production generated a profit of 1.564 tenge, whereas in agriculture or forestry the profit was only 0.099 tenge. In other words, one tenge invested in oil and gas production generated 16 times more profit than one tenge invested, say, in the development of agriculture and almost 9 times more than one tenge invested in construction. In 2005, this effect was even more pronounced in view of the significant rise in oil prices.

This circumstance creates unequal conditions for operation in different sectors of the economy, putting a brake on investment in sectors with a low rate of return. This stimulates the uneven development of different sectors of the economy, with an obvious skew toward the oil production sector.

³⁸ See: [<http://www.zakon.kz/our/news/news.asp?id=30024385>].

³⁹ Ibidem.

⁴⁰ See: [<http://www.interfax.com/3/121730/news.aspx>].

⁴¹ Calculated by the author, available at [<http://www.kki.kz/cgi-bin/index.cgi?nc1390&dbid=null&version=ru>].

⁴² See: [<http://vneshmarket.ru/NewsAM/NewsAMShow.asp?ID=218303>].

⁴³ See: [<http://www.kazakhconsulting.kz/pageid85.html>].

Table 4

**Fixed Capital Investment
by Economic Sector in 2005**

Sectors	Investment (million tenge)	Share in total investment (%)	As % of 2004
Total	2,205,217	100	122.1
Agriculture, hunting and forestry	42,400	1.9	91.1
Mining industry	816,548	37.1	143.7
Manufacturing industry	229,253	10.4	118.3
Construction	50,736	2.3	70.9
Transport and communications	326,944	14.8	120.3
Education	32,940	1.5	142.9
Health care and social services	37,172	1.7	256.2

S o u r c e: Statistics Agency of the Republic of Kazakhstan, available at [http://www.stat.kz/stat/index.aspx?p=news_783&l=ru].

Table 4 shows that the mining industry, in which the leading role today is played by the oil and gas sector, is clearly a privileged branch of the economy, taking more than a third of total fixed capital investment in the country. No wonder that in recent years there has been a steady decline in the share of manufacturing in the country's total GDP. Whereas in 1995 this share was 58.7%, in 2004 it was only 40.4%. In recent years (up to 2005), production growth rates in manufacturing were lower than in mining. In 2004, for example, the figures were 8.9% and 12.7% (compared to 2003), respectively.⁴⁴ And only in 2005 this trend was reversed.

A point to note is that metallurgy and manufacture of metal products have a significant share in the structure of manufacturing (41.6% in 2004), whereas the share of the textile industry is insignificant (about 2%). Incidentally, Kazakhstan now produces 16 times less fabrics than in the Soviet period (1990). As regards engineering, it accounts for only 8% of total production in manufacturing. Oil refining has the same share despite very high oil production figures.⁴⁵

The production of livestock products traditional for Kazakhstan and in great demand among its population has dropped sharply (many times). According to state statistics, the production of "meat and edible offal of cattle, pigs, goats, horses and poultry meat" in 2004 was down to only 7.7% of the 1990 level, and the production of processed milk and cream, to 10.5% (this applies to livestock products recorded by government statistics). The production of some other important goods

⁴⁴ See: *Delovaia nedelia*, 20 May, 2005.

⁴⁵ *Ibidem*.

has declined as well. For example, the amount of cement produced in 2004 was over 2.2 times lower than in 1990.

High prices for crude oil in the world market do not promote the development even of such industries of key importance to the republic as oil refining or the petrochemical industry. In technological terms, these branches of national industry lag far behind their current development level in other countries. For example, one ton of crude oil in Kazakhstan yields only about 150 liters of motor fuel, or almost three times less than in Western countries, where a ton of crude is processed into 430 liters of such fuel.⁴⁶

The rise in world oil prices and imports of oil products push up the prices of fuels and lubricants in the republic's domestic market as well, where the prices of some of them have doubled in recent years. This has a negative effect on the development of many sectors of the national economy, especially those requiring substantial amounts of energy. As a result, the share of fuel in the cost of many products has increased. Transport fares have gone up, as well as the prices of many foodstuffs. A particularly difficult situation in the domestic oil product market arose in Kazakhstan in the fall of 2005; some observers even called it a "fuel crisis."

Today the republic's authorities are faced with the need to address a sufficiently complicated problem: *to formulate an optimal strategy for its oil policy*. On the one hand, given the rapid rise in hydrocarbon prices one is naturally tempted to make the most of the favorable situation in global oil and gas markets by boosting the production and exports of crude oil and gas over the short term. On the other hand, there are many factors that strengthen the case for a reasonable, measured increase in hydrocarbon production.

The main difficulty is that the development of the situation in the hydrocarbon market cannot be predicted for the long term. It is quite possible that energy prices may either go down or continue to rise: after all, the current speculative demand for oil and gas is connected not only with economic factors, such as rapid economic growth in the PRC and India, which consume increasing amounts of energy resources.

An important role is also played by political factors, such as the situation in Iraq or the events around Iran in the context of the latter's implementation of its nuclear program. The possible cessation of oil supplies from that country or even their significant reduction could spur the increase in world liquid fuel prices still further. But as soon as the political situation in this region with the world's richest oil and gas resources is normalized and oil begins to stream into the world market in a steady flow, we can expect a significant decline in oil and gas prices.

Besides, even today high oil prices create an incentive to accelerate the development of new energy efficient technologies, especially in the area of car engines, which currently consume more than half of all the oil produced in the world. A breakthrough in this area will inevitably bring down prices in oil markets. *And the faster the increase in oil prices today, the sooner will the "oil era" come to an end*. In such a case, world prices will be dictated not by sellers of oil but by its buyers.

At the same time, the development of an oil strategy for Kazakhstan has yet another highly important aspect. Large-scale exports of nonrenewable natural resources despite the republic's obviously limited resource endowment, especially compared to such major oil and gas producers as Saudi Arabia, Russia, Iran, Iraq, Kuwait and other countries, is fraught with their rapid depletion (in the next few decades). If this scenario is realized, the republic could be in danger of losing its huge oil revenues even before it completes its economic reforms.

According to OPEC forecasts, if Kazakhstan continues to increase oil production at the projected pace, by 2030 its reserves of liquid fuel will be virtually depleted.⁴⁷ Estimates made by Kazakhstan

⁴⁶ See: *Almaty INFO*, 25 December, 2004.

⁴⁷ See: Roundtable on the Prospects for the Development of the Oil Industry in Kazakhstan, 25 August, 2005, available at [http://www.iimp.kz/index.php?action=show&art_id=329&from=0].

specialists are much more optimistic in this respect. It is obvious, however, that a rapid buildup of oil and gas production cannot augment the country's mineral wealth.

Statements by the country's president and other top officials, just as the practical steps being taken to develop the national economy, show that these problems are a major focus of attention. In July 2005, the Economic Policy Council under the republic's government took a decision to investigate the influence of growing oil production volumes on the macroeconomic equilibrium and to draw up the most acceptable schedule for oil and gas production in the long term.⁴⁸

In his 2006 Address to the Nation, the president said that Kazakhstan would "open up new niches in the domestic and global markets ... by developing downstream processing in the oil, gas and other sectors of the mining industry."⁴⁹ Special attention in the coming years is to be paid to the implementation of the comprehensive ten-year General Plan for the Development of Petrochemical Production. The latter was drawn up under the direction of Prime Minister Danial Akhmetov, who has repeatedly emphasized that the development of the petrochemical industry is a key element of the plan to diversify the national economy.

Kazakhstan's National Economic Development Strategy provides for a return of the oil producing industry into the hands of local businessmen. President Nazarbaev has declared that within 30 years the country would be able to produce oil in its territory without foreign participation. Kazakhstan has already started implementing this strategy. Significant amendments and addenda have recently been made to the laws On Oil and On the Use of Mineral Resources. The national company KazMunayGas has been granted the exclusive right to represent Kazakhstan and to have a stake of not less than 50% in all the oil projects to be implemented in its territory. Legislation also establishes the state's priority in buying out mineral rights. For example, Kazakhstan has already bought out the British Gas stake in the Karachaganak project.

Changes have also been made to the Tax Code: in particular, a rent tax has been introduced on oil exports.⁵⁰ Nevertheless, foreign companies remain interested in the development of the republic's oil reserves. Thus, in the opinion of representatives of some foreign oil companies operating in Kazakhstan, such as Shell's executive director for exploration and production and regional managing director for the CIS and Middle East countries, the provisions of Kazakhstan's new Tax Code are entirely acceptable for successful work on mutually beneficial terms.⁵¹

Kazakhstan's strategy for bringing the oil and gas sector back under full national control implies, in particular, a gradual replacement of foreign specialists by local ones. In June 2005, President Nazarbaev said that in the long term the proportion of foreign specialists in the republic's oil industry should not exceed 10%. He said: "We must develop the petrochemical industry and must export not only oil and gas but also their derivatives, including plastics. We must produce machines for the development of the oil industry, build roads and create an infrastructure. That is why one of our requirements in the conclusion of contracts with foreign companies is training of Kazakhstan engineers."⁵²

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The persistent phenomenon of rapidly rising oil and gas prices observed over the past few years has given independent Kazakhstan a good chance to accelerate the solution of its numerous economic

⁴⁸ See: Roundtable on the Prospects for the Development of the Oil Industry in Kazakhstan, 25 August, 2005, available at [http://www.iimp.kz/index.php?action=show&art_id=329&from=0].

⁴⁹ See: [<http://www.nomad.su/?a=3-200603020023>].

⁵⁰ See: Roundtable on the Prospects for the Development of the Oil Industry in Kazakhstan, 25 August, 2005.

⁵¹ See: *Neftegazovaia vertikal*, No. 13, 2005, available at [<http://ngv.ru/magazin/view.hspl?id=2764&mid=106>].

⁵² *Ibidem*.

and social problems. The country has got a real opportunity to use the oil and gas sector as a “locomotive” for the development of the whole national economy and is taking certain steps in this direction. The difficulty of working out an oil strategy in the conditions of rising oil and gas prices lies in the need to find an optimal combination of the course toward a further phased buildup of oil and gas production so as to take advantage of the current market situation with the course toward a modernization of manufacturing industries so as to bring them up to a modern development level that would ensure their competitiveness in global markets. As regards an unlimited increase in hydrocarbon production for the sake of maximizing short-term gain without a parallel modernization or accelerated development of other sectors of the national economy, this is fraught not only with a rapid depletion of natural resources, but also with lost time, for which it will hardly be possible to make up in the foreseeable future.

TRANSNATIONAL CORPORATIONS IN KAZAKHSTAN

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Obviously, transnational corporations (TNCs) with over 50 percent of world industrial production, over 60 percent of international trade, and nearly 90 percent of foreign direct investments under their control exert considerable influence on the world economy. They have essentially all trade in raw materials under their thumb; Kazakhstan, a country rich in mineral wealth, is also within their range of influence. As an independent state, the republic was not only one of the first in the post-Soviet expanse to attract foreign capital by transferring large enterprises of basic industrial branches to trust management, which allowed subsequent privatization and the setting up of new facilities with 100 percent foreign money, but also relied on intensive mining and extraction as its economic cornerstone.

In 1994-1997, the TNCs began their active invasion of Kazakhstan's economy: after supporting “director” or “bureaucratic” privatization, the government placed its stakes on large foreign investments for obvious reasons. Involvement of large TNCs not only placed the country on the economic map of the world and guaranteed a flow of investments, but also ensured domestic stability (due to interest in protecting property rights). This explains the unprecedentedly wide-scale (as compared to other countries with “transition” economies) involvement of large TNCs in the republic's economy.

The government expected that foreign corporations' involvement in the local economy through shares and long-term contracts on oil and gas production¹ would contribute to the country's eco-

¹ For example, under the agreement, the Karachaganak Petroleum Operating B.V. (the shares of the BG Group and ENI are 32.5 percent each; Chevron Texaco, 20 percent, LUKoil, 15 percent) is expected to manage the Karachaganak

conomic upsurge. It was expected that “the new private owners would not only invest in production, but also introduce new marketing and management skills and, especially, new ideas typical of the market economy.”²

Foreign companies, however, not only and not so much “introduced” “new ideas typical of the market economy” and money, they gained political weight. For obvious reasons, foreign capital created pressure groups. While the country, in the clutches of an economic crisis, badly needed Western money, TNCs, acting as intermediaries between the government and the international financial structures, were primarily lobbying their own interests. Some of them even set up certain public and political movements and organizations. The Civil Party of Kazakhstan, created and supported with the help of the Eurasian Bank,³ is one such structure.

The following companies, well known across the world, have struck root in Kazakhstan: Glencore International AG (Kaztsink Open Joint-Stock Company), ENI, Total, Royal Dutch Shell, Exxon-Mobil, ConocoPhillips, Inpex (Agip KCO Joint-Stock Company), Chevron (Tengizchevroil Ltd.), Samsung (Kazakhmys Corporation), «Mittal Steel» (Mittal Steel Temirtau Joint-Stock Company),⁴ Philip Morris (Almaty Tobacco Factory Joint-Stock Company), Coca Cola (Coca Cola Almaty Bottlers Joint-Stock Company), and others.⁵ After settling in Kazakhstan, they promptly mastered the unofficial rules of doing business and fit into the local economic realities.

As owners of the largest enterprises, TNCs play an important role in Kazakhstan. Some experts believe that their daughter companies control over 80 percent of the republic’s production potential. For this reason, when dealing with the country’s leaders, they (as distinct from the local business community) are not alien to threats of withdrawing their assets⁶ from the country’s economy, thus inflicting considerable damage on it. This has happened more than once recently.

Orientation toward the interests of foreign corporations is obvious in many spheres: the TNCs are busy lobbying their interests through official and unofficial channels (through key figures in corresponding structures). In particular, the notorious conflict with Tengizchevroil over construction of a gas processing plant was resolved through open lobbying by the Foreign Investors Board.⁷ The Board was involved in another no less notorious case: at the Board’s plenary sitting held several years ago in the Mangystau Region, A. Mashkevich, President of the Eurasian Industrial Association, complained to President Nazarbaev that the Antimonopoly Committee and the Ministry of

project until 2038. This oil- and gas condensate field found in the Western Kazakhstan Region contains over 1.2 billion tons of oil and condensate and over 1.35 tcm of gas.

² S. Kalmurzaev, “Peredacha v upravlenie kak odin iz putey pod’ema ekonomiki,” *Azia—ekonomika i zhizn*, April 1996.

³ The Eurasian Bank group controls such export branches as the aluminum and chromium industries—Kazkhrom, Aliuminiy Kazakhstana Joint-Stock Company, the Sokolovsko-Sarbaynskiy Ore-Dressing Combine, the Aksu Ferroalloy Plant, the Eurasian Energy Corporation, the Ekibastuz Coal Colliery, the Ermakovo Hydropower Station, several thermal power stations, and some other structures. The Eurasian Bank (A. Mashkevich is chairman of the board of directors) is the heart of this business empire. According to different sources, it controls from 20 to 30 percent of the country’s GDP. According to the *Jerusalem Report* of Israel, Mr. Mashkevich controls no less than one-fourth of Kazakhstan’s economy, or 70-80 percent of the country’s mining complex.

⁴ According to the company’s heads, the Kazakhstan combine “is one of the world’s most profitable steel producers.” Experts believe that this was achieved because of low wages: the wage fund accounts for merely 18 percent of the cost structure. Six months after Mittal Steel bought the enterprise, its managers insisted on buying 15 state-owned coalmines of the Karaganda Coal Basin, a power station, and railroad line ends. They argued that the company needed the facilities to cheapen production by creating a closed production cycle. The company acquired them debt-free (these debts were shifted onto the state budget). Recently the company and the labor collective clashed over the dividends: the workers who had ordinary shares received annual dividends of 100 tenges (about \$0.7).

⁵ According to UNCTAD, there are over 1,600 branches of such TNCs as Chevron, Shell, Agip, Samsung, and Philip Morris registered in Kazakhstan. Together they hire over 18,000 people.

⁶ Today, the agreements in the oil and gas sphere alone are worth over \$40 billion.

⁷ The company is operating under the Production Sharing Agreement and cannot, therefore, enjoy the tax privileges applied within general tax legislation. Moreover, the construction project was envisaged by the Agreement, so the company failed to live up to its obligations.

Transport had raised transportation tariffs for raw materials, thus infringing on the interests of his transnational industrial-financial conglomerate. The decision was promptly annulled on the basis of only one side's arguments. It should be said, though, that all sorts of formal channels of cooperation (councils of foreign investors, recommendations on enterprise and investments, etc.) produce a much weaker impact.

Late in the 1990s, when oil and metal prices were low, the extracting companies managed to alleviate certain ecological restrictions. The process, however, was not reversed when the prices began to climb. In an effort to restore the restrictions, the new cabinet became entangled in a web of economic conflicts and lost on many occasions. There is the opinion that the Law of the Republic of Kazakhstan on Transfer Pricing was also a direct product of the lobbying efforts of the mining TNC.

Taxation policy was no exception: out of four production factors—labor, capital, land, and natural resources—only the first three are taxed. There is the opinion that rent and payments for the right to use natural resources account for about 0.5 percent of the GDP. Some experts believe that the “natural rent” share (which mining companies in the oil and gas spheres have in fact privatized) is over \$1 billion; the figure for the entire mineral and raw materials sector is 6-8 percent of the GDP, much more than the amount the oil and gas sector pays to the budget.

The profit tax paid by the companies pumps a lot of money into the budget, but in an effort to prove that cost value differs little from the price, TNCs conceal their profits in their expenses. It is next to impossible to check veritable cost value, since the contracts signed with the government of Kazakhstan do not envisage cost value auditing. For example, the gap between domestic prices (at which the companies sell Kazakhstani oil to their intermediaries) and foreign prices might create a profit of ten and more times higher than the original investments.

An analysis of decisions related to the country's industrial policies suggests that nearly all of them were imposed by large raw-material producers. As a result, the republic suffers, first, from a chronic gap between reproduction of the mineral-raw material base and the growing pace of mining; second, natural resources are plundered: today, only rich deposits are developed, which means that the mineral-raw material base is being rapidly depleted; third, outdated technologies of extraction and processing are used, which leads to incomplete use of natural resources. For example, some of the valuable components of polymetallic ores are wasted, while local inventions designed to utilize all the components are ignored.

Fourth, TNCs are not doing their best to protect the environment while claiming that they are guided by the highest possible standards. However, local experts are of the opinion that this is not always true. Indeed, if Chevron were observing the environmental protection standards, it would be addressing the problem of sulphur utilization rather than stepping up oil production in Tengiz. (Today Tengizchevroil accounts for nearly one quarter of the oil produced in the country, nearly all of which is imported through the CPC pipeline.)

TNCs are using the never-ending discussion of the local environmental standards to put pressure on the republic's government. In the past, the decisions on mining and extraction ignored what the local people thought about these plans (public hearings were, in fact, organized to inform the population about the companies' and the government's intentions). This is going on today as well. At the same time, in an effort to improve their image, the government is trying to smooth things over; it fines at least some of the companies for environmental violations, checks into how their activities are affecting human health, and even brings some of the companies to court. The corporations, naturally, retreat, yet the key provisions of their contracts remain the same, while the small fines they pay for environmental pollution⁸ are too small to boost the budget and remedy the situation.

⁸ The following figures are relevant in this respect: the value of the Tengiz agreement is \$20 billion; the value of three contracts on Shah Denis, Chirag, and Gunashli in the Southern Caspian is about \$15 billion.

Both the TNCs and state structures prefer to keep mum about certain urgent issues: reality might look much worse than the official reports supplied by the government and oil companies. Those who cross the Caspian by air can see large oil spills, the sources of which remain undetected: the country has no adequate system for localizing and liquidating such spills.

In an effort to put an end to the “game without rules” in the Caspian, the government of Kazakhstan created laws that allowed TNCs from all countries to carry out intensive geological prospecting on the Caspian shelf. This put an end to the Northern Caspian natural reserve status.⁹ We all know that the shallow waters of the Northern Caspian are the place where its biological resources are reproduced (young sturgeon go there to grow). There is a well-substantiated opinion in the Kazakhstani academic community that oil production in the Northern Caspian should be discouraged rather than encouraged and that biological resources should be protected and increased. Indeed, the time has come to organize close regional monitoring of the effects oil production is having on the biological diversity, environment, and human health. However, this measure has been postponed and is being postponed indefinitely: the time may come when there will be nothing to monitor.

At the same time, we cannot say that the government is TNC-dominated: since the late 1990s, it has been trying to revise its previous agreements with foreign investors and place them under stricter control. The state uses the companies’ investment and social obligations and energy fuel transportation tariffs as “pressure tools.” Recently, the state, in an effort to increase its share in the economy, has cooled off with respect to those foreign companies that violate environmental rules. There are programs and acts implemented at various levels of “import replacement” with locally produced commodities and ensuring “Kazakhstan’s share”¹⁰ in oil contracts. We are witnessing how nearly religious veneration of TNCs (which brings to mind the sacred cows of the Hindus) is becoming a thing of the past.

The country has acquired its own oil and gas elite wishing to gain access to the country’s raw material resources that remained far too long under foreign control. With this aim in view, several years ago the country adopted a new normative act that annulled Art. 6 of the old Law on Foreign Investments, under which the state pledged not to worsen the investors’ situation.

The recent Law on Amendments and Additions to Certain Legal Acts of the Republic of Kazakhstan Related to Mining and Oil Operations in the Republic of Kazakhstan gave the state the preemptive right when it comes to buying shares in large investment projects. It allowed the state not only to repurchase the British Gas share in the Kashagan oil project and 33 percent in PetroKazakhstan, but also to make the Kazakhstani KazMunayGaz Company an automatic member of all oil production sharing agreements after 2004. Thus, we can say there is a trend toward changing the status and position of foreign investors in the eyes of the country’s political elite. Hopefully, the policy of inviting investors will become still more differentiated, while the best conditions for foreign investors will be created outside the raw material sector.

It should be said that the foreign TNCs acting on the local market were involved in corruption schemes. According to Transparency International,¹¹ in 2004 Kazakhstan held 122nd place (which

⁹ According to Russian researchers, 3-4 platforms with 10 to 12 wells each increase the risk of pollution by at least 1 MPC (maximum permissible concentration) a year over a quarter of the water area of the Northern Caspian (even taking into account the rate of self-purification).

¹⁰ “Kazakhstan’s share in projects” means that the project operators should invite local producers and suppliers to carry out contractual work; materials and equipment should be bought from local producers. For example, in 2003 the Kazakhstan share in Tengizchevroil JV was 42.2 percent. The main part was used to pay for the services and all types of jobs, while the remaining 2 percent was used to buy materials from the local producers. In 2004, Kazakhstan’s share in the Karachaganak Petroleum Operating (KPO) consortium was 40 percent.

¹¹ See: [<http://www.transparency.de/documents>].

was much worse than in 2003). The arrival of “civilized” Western investors in Kazakhstan did not decrease corruption as expected: in fact, the newcomers fitted well into the corrupted economy. Corruption and misuse of means are possible due to the absence of reliable information about financial transactions between large extracting companies and the government. In the 2005 budget, for example, some of them disappeared without clear explanation from the list of those who pay to the National Fund.

The results of the expert poll on the activities of foreign oil and gas companies in Kazakhstan conducted by the KAZRATING agency in the spring of 2005 look especially impressive: on the whole, the population was very much disillusioned with foreign companies. According to 76 percent of the polled, oil companies are damaging the environment and human health; people did not think highly of the foreign companies’ social and economic efficiency either. The polled explained this by the wide gap in the wages paid to local workers and foreigners, as well as by the wage arrears.

Transnational capital in Kazakhstan is concentrated in the oil and gas, as well as in the non-ferrous metal sectors. According to statistics, over 60 percent of foreign direct investments goes to oil production and refining; 10 percent to non-ferrous metallurgy, and 5 percent to each of the ferrous metallurgy, gas, and food industry. The United States, the U.K., Italy, Switzerland, the Netherlands, the Republic of Korea, China, Canada, and Russia are the ten largest investors when it comes to volume of aggregate accumulated investments. They account for over 80 percent of foreign direct investments in Kazakhstan. The foreign companies are mainly operating in their favorite sectors: the Americans prefer the oil and gas sector (American companies participate in almost all the large joint ventures, such as Tengizchevroil, Agip KCO, the CPC, Karachaganak Petroleum Operating B.V., and others), and Dutch investors are operating in transport, communications, and financial services, while all the TNCs concentrate on mining and hydrocarbon production.

By 2015, the Kazakhstani authorities expect to reach an annual oil production figure of 140-150 million tons (about 3.5 million barrels a day) and join the group of ten largest oil producers by implementing the Kashagan and other Caspian projects. However, oil production in the Northern Caspian, which involves the world’s largest oil TNCs, is not economically expedient—this is a purely political decision. The Caspian Lowland and the Ustiurt Plateau contain three times more potential oil (calculated in standard fuel) than the republic’s explored reserves. It is much cheaper to prospect and produce oil there than on the shelf. By moving to the shelf the government probably wanted to demonstrate that Kazakhstan was a fairly developed country able to work on the shelf, while the TNCs wanted to register their presence in the most promising places.

It seems, however, that neither the wider oil production territory, nor the greater volumes of produced oil will push the country into the front ranks. To accomplish this, Kazakhstan should rid itself of the current role of hydrocarbon supplier and restore control over the entire surplus-value producing line: extraction, and production and sale of high-quality oil products. To achieve this, the republic should encourage investment of Kazakhstani capital in the economies of the countries that use its energy fuels (the post-Soviet republics in particular, as well as Europe and China).

The country’s vast hydrocarbon resources are attracting money into oil-related machine building, service companies, production and social infrastructure, oil refining, and petrochemistry. In practice, however, this potential remains untapped: during its years of independence, the country has not acquired new oil refineries, while modernization of one out of the three refineries operating in the republic caused a lot of problems; the possibility of a petrochemical complex is still being discussed.

In the contemporary world, education and the real economy are interconnected, yet in Kazakhstan many of its graduates lack the adequate technological knowledge and technical skills for the simple

reason that the locally operating TNCs prefer to use old equipment and obsolete technologies: cheap labor does not require innovations. The labor force is losing its former skills; the share of industrially employed is decreasing (this is especially true of the processing industry), while people are moving to trade and services in great numbers. Meanwhile, no country with a workforce engaged in reselling commodities produced elsewhere can hope to join the group of fifty most competitive countries, something that has been formulated as the republic's goal.

The same applies to science: research institutes cannot reach competitive results, since even if they have highly skilled staffs, they use obsolete equipment and are not certified according to the world standards. Meanwhile, today cheap resources no longer offer competitive advantages: this role belongs to intellectual and scientific-technological potential.

In this way, the TNCs operating in Kazakhstan are influencing every aspect of its life in the ever-increasing way. It is critically important to know the extent to which TNCs affect the legal situation in the country and how faithfully they observe the republic's laws, but this information is carefully concealed. The companies never tire of repeating that they are all law-abiding structures, while their local employees never betray what they think about it: to preserve their jobs they painstakingly avoid any discussions of the subject. In July 2003, the Prosecutor General, however, discovered that several foreign mining companies had seriously violated the labor laws. One wonders why the government failed to detect them. The Kazakhs say in such cases: "He was probably gazing at the moon." When he was informed of this, the head of state instructed the government to remedy the situation in the shortest time possible.¹² Obviously, the TNC heads were not completely sincere.

Deficient laws, inadequate control over their fulfillment, and the absence of legal norms in certain spheres have made Central Asia and the Caucasus "a corporate heaven." This fully applies to Kazakhstan as well.

An analysis of what the TNCs are doing in Kazakhstan has revealed the following trends.

- First, foreign capital is concentrating on the mineral-raw material complex.
- Second, production is stabilizing in the area where TNCs are operating (the means and methods are not discussed).
- Third, TNCs and human rights are one big problem in the absence of independent trade unions. Foreign companies never hesitate to violate the fundamental human rights strictly observed in the West.
- Fourth, the republic cannot regulate TNCs at the international level: today, its rights are limited to the Convention on Transnational Corporations signed by some of the CIS countries and bilateral investment agreements.
- Fifth, information about TNC activities is limited and hardly accessible; Kazakhstan's "raw material strategy" is realized under conditions of strict confidentiality. The nation knows nothing about the oil contract conditions and the way the bonuses, investments, and real oil-produced incomes are distributed. Relevant information remains secret: this primarily applies to all economic indices, including the cost value of products, the main source of TNC super-profits in Kazakhstan.
- Sixth, the national sector has obviously accumulated enough strength to realize its political potential; it is creating new rules and moving into the corridors of power to protect its interests.

¹² See: *Izvestia-Kazakhstan*, 4 July, 2003.

- And, finally, the republic's leaders are doing their best to decrease the country's dependence on Western money by enlarging the number of investors (mainly by relying on Russian and Chinese companies). New forces have obviously joined the process: in the past, it was American investors and lobbyists who played first fiddle in oil-related politics. Today, the Russians and Chinese are coming to the fore: as a result, the oil and gas flows will be turned from the West toward the East.

KYRGYZSTAN AT A CROSSROADS: FACING THE ECONOMIC CAUSES OF THE TULIP REVOLUTION

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

The 24 March, 2005 Tulip Revolution has pointed out some of the most pressing problems that Kyrgyzstan currently faces. The Akaev administration was brought down by a popular uprising, which was occasioned more by economic hardship and deprivation than by political oppression. As a consequence, the post-revolutionary Kyrgyz leadership has inherited very acute economic and financial problems that they will have to address in order to avoid future public outbursts of fury.

Kyrgyzstan's stability and future development, however, does not solely depend on its leadership. The country's relationship with powerful international organizations such as the International Monetary Fund (IMF) and the World Trade Organization (WTO) has no less significance for

its future economic prospects, and political maturity. So far, these two organizations did nothing but damage in Kyrgyzstan, as they have undermined economic and social fabric of the country, and effectively prepared a fertile ground for the March 2005 crisis.

The Central Asian region is politically volatile, and economically remote. Kyrgyzstan faces potentially very violent political challenges from Islamic extremists and criminal groups. After the Tulip Revolution, these challenges continued to be magnified by economic hardship and deprivation of its population. Unless the new Kyrgyz leadership exercises caution, and due diligence in its economic policies, their blind following of the IMF and WTO guidance may ruin the country, and lead it toward more political violence.

Kyrgyzstan's Transition

Kyrgyzstan is a country of rare natural beauty. Its wealth rests mostly in tourism, agricultural, and resource industries. Prior to its independence in 1991, the republic mainly exported gold, uranium, steel, mercury, cotton, tobacco, wool, meat, hydropower, and some machinery.¹ In the Soviet Union, Kyrgyzstan had near monopoly on the production of antimony, which just like uranium is no longer produced in significant amounts.² As a supplier of mostly raw materials and primary goods to the rest of the Soviet Union, Kyrgyzstan did not inherit sustainable economic infrastructure after the dissolution of the Union. Transportation routes were never well developed in the country, making it difficult to get goods in and out. Many manufacturing entities were artificially inserted into the country by Soviet leaders. For instance, there was a factory manufacturing torpedoes, and one assembling car doors. There was also a sugar refining enterprise, which was importing raw sugar from places like Cuba, refining it and distributing across the Soviet Union.³

Needless to say, the collapse of the Soviet Union left such industries out of action. With the Soviet regime departed subsidies and cash transfers from Moscow, which in 1991 (the last year of the Union) accounted for 12.2 percent of GDP, and 35.2 percent of the country's budget—about half of the latter being price subsidies.⁴ As a result, the Kyrgyz government budget fell from 38.5 percent of GDP in 1990 to 12.7 percent in 1992.⁵ In the 1990s, Kyrgyzstan ran large trade deficits, with the trade balance changing in 2000-2001, when the country reported small surpluses. According to 2004 data, the country's current account balance was negative, around US \$90 million, with trade deficit of US \$128.4 million.⁶

Askar Akaev, under whose leadership Kyrgyzstan emerged from the Soviet Union, won country's first contested election in 1990. He did not belong to the old Bolshevik guard, and as such enjoyed wide popular support. This fact was a huge credit to a post-Soviet leader, especially to one from Central Asia. Besides, during the final years of the Soviet regime, with newly found openness and free speech, the country enjoyed higher standards of living—the U.N. Development Program rated Kyrgyzstan 26 out of 173 by their Human Development Index.⁷ The leadership of the newly independent Kyrgyzstan was enthusiastic about market reforms, and soon the country became an exemplar follower of policy recommendations issued by the Washington consensus institutions.

In 1998, Kyrgyzstan became the first post-Soviet country to join the World Trade Organization. This at the time was hailed as a major achievement, and as an affirmation by the international community of Kyrgyz economic reforms. In the second half of the 1990s, the Kyrgyz economy was but a shadow of its former self: by 1995 Kyrgyzstan's Gross Domestic Product declined by 45 percent from its 1991 level.⁸ Amazingly, in the same year, the International Monetary Fund ranked Kyrgyzstan fourth among former Soviet republics (behind the Baltic countries) in the pace of economic reforms. To put it mildly, this was a misdiagnosis and a gross misinterpretation of the mean-

¹ See: M. Dabrowski, R. Antczak, "Economic Reforms in Kyrgyzstan," *Russian and East European Finance and Trade*, Vol. 31, No. 6, November-December 1995, p. 6.

² See: "Country Profile: Kyrgyzstan," *Library of Congress—Federal Research Division*, November 2005, p. 7, available at [<http://lcweb2.loc.gov/frd/cs/profiles/Kyrgyzstan.pdf>].

³ See: M. Dabrowski, R. Antczak, op. cit., p. 7.

⁴ See: Ibid., p. 8.

⁵ See: Ibid., p. 19.

⁶ See: "Country Profile: Kyrgyzstan," p. 9.

⁷ See: A. Bauer, N. Boschmann, D. Green, K. Kuehnast, *A Generation at Risk: Children in the Central Asian Republics of Kazakhstan and Kyrgyzstan*, Asian Development Bank, Manila, 1998, p. 4.

⁸ See: R. Pomfret, K. Anderson, *Economic Development Strategies in Central Asia Since 1991*, Blackwell Publishers, Oxford, 2001, p. 191.

ing of “reforms:” the goal of economic reforms are not reforms themselves, but well-being of people and economic health of a nation. In 1995, one third of the country’s enterprises, some 120 of them were idle, and in 2004, the industry contributed only 13 percent of the GDP.⁹ The trend of de-industrialization continued more recently: according to the national Statistics Committee of Kyrgyzstan, the industrial output between January and October of 2005 has decreased by 9 percent from the corresponding period of 2004.¹⁰

Kyrgyzstan’s quick economic decline was, of course, primarily occasioned by the dissolution of the Soviet Union. Previously its exports were destined to Russia and other Union republics. In the 1990s, many economic links among the former Soviet republics were severed, and Kyrgyzstan was no exception. No former Soviet republic, except the Baltic republics, was properly prepared for the transition from planned to free market economy. However, just like other Soviet republics, Kyrgyzstan emerged from the Soviet Union with certain advantages, such as a high literacy rate, well educated middle class, functioning economic base, and welfare state institutions, especially those of universal education and healthcare. However, the economic reforms of the 1990s, advocated and guided by the IMF, diminished these obvious advantages for a developing state, and brought the country to an economic ruin and political violence.

The 1990s were dominated by the neoliberal economic doctrine, and the newly independent former Soviet republics were challenged with ready neoliberal ideological recipes of how to build functioning market economies. Such powerful international financial institutions as the IMF and the World Bank are still dominated by neoliberal ideologues who hold dear certain principles: any state intervention in the economy is pernicious, if left alone market will function perfectly, and that general theoretical economic policy prescriptions will work perfectly for any nation.¹¹ At the same time, these organizations have paid no attention to the well being of the population in their client states, and made no attempt to sequence their proposed reform, for instance, to have proper political and legal institutions in place before pushing for dissolution of state-held monopolies or state-run enterprises.¹²

Kyrgyzstan’s austere macroeconomic reforms in 1993 were made even harder after speedy reforms and privatization in the banking sector. Out of nothing, credit markets, currency auctions and treasury bond markets were also created.¹³ In the same year, the Russian/Soviet ruble was dropped and the new Kyrgyz currency, the som was introduced. Soon after that in 1994, the government removed control mechanisms over such products as food and fuel, as well as export controls and controls over profit margins. Dropping of controls immediately created huge problems for the general population, and contributed to dramatic poverty growth in the country. The value of the som fell, prices for the most basic products skyrocketed, and even food became too expensive for many.

Proper conduct of economic reforms is essential for their final success. For instance, a country should have legislation and institutions dealing with financial markets *before* financial liberalization takes place. The same is true for other markets, monopolies, privatization, property rights, etc. A properly organized and communicated system of property rights is especially crucial, since it is property that guides capital accumulation, and leads to economic growth. In other words, political and legal institutions should *precede* economic reforms, not follow them. Well organized institutions allow for

⁹ See: “Country Profile: Kyrgyzstan,” p. 7.

¹⁰ See: “Social Economic Situation of the Kyrgyz Republic,” National Statistical Committee, available at [<http://www.stat.kg/Eng/Home/Social.html>].

¹¹ For more on the IMF and its agenda see: J.E. Stiglitz, *Globalization and Its Discontents*, W.W. Norton & Company, New York, 2003.

¹² See: *Ibid.*, pp. 73-78.

¹³ See: M. Dabrowski, R. Antczak, *op. cit.*, p. 25.

a normal and well-functioning capitalist system, without which market economies do not come into existence.

From the very beginning of its independent existence Kyrgyzstan displayed an orientation toward a more liberal and free society than any of its neighbors in the region. Its leadership under President Akaev trusted policy recommendations and advice it received from international bodies and readily embraced neoliberal economic reforms. The country's abysmal economic performance, its huge national debt, its impoverished population, the rise of Islamic militancy, and the March 2005 Tulip revolution are direct results of those reforms.

Kyrgyzstan and the IMF-WTO Tandem

Kyrgyzstan's dependency on international financial organizations dates back to 1992, when a half of its seventeen percent budget deficit was covered by international sources.¹⁴ By 2002, net financing from foreign donors reached US \$539 million—one third of its GDP.¹⁵ In 2001, its external debt was about US \$1.7 billion,¹⁶ and reached 2 billion dollars by the end of 2005.¹⁷ In other words, Kyrgyzstan's external debt surpassed its GDP!¹⁸ At the same time, the country experiences rising levels of poverty and brain drain. In January 2005, the average monthly wage was estimated at US \$54.9.¹⁹ In 2004, the minimum pension was US \$5.10 a month (which was 12 percent of the average wage of US \$42.50 during that year).²⁰ By 2003 estimates, about 50 percent of the population lived below the poverty line; this figure was about 80 percent in the southern regions.²¹ Poverty is especially acute in rural areas, where the average income is less than US \$1 a day.²² Since 1992, secondary school enrollment figures have steadily declined—children need to work to support their families, and for those who attend school education is disrupted in winter months due to lack of power for heat.²³ Public health has declined, previously rare diseases such as typhoid and tuberculosis have become common.²⁴ Many medical doctors and other professionals have left the country since 1992, and have left behind a huge shortage of trained professionals.²⁵

In 1998, the WTO accepted Kyrgyzstan as a member not because of its stellar economic performance, but for very pragmatic reasons. Kyrgyzstan is a landlocked mountainous country located far away from major international transportation routes. As such, Kyrgyzstan competes with no one in

¹⁴ See: M. Spechler, *Free Trade, Free Markets: Central Asia on the Edge of Globalization*, M.E. Sharpe, Inc., New York, 2004, p. 71.

¹⁵ See: Ibidem.

¹⁶ See: Ibidem.

¹⁷ See: K. Jenkins, "The Kyrgyz Revolution: One Step Ahead or Two Steps Back?" *Central Asia—Caucasus Analyst*, 21 September, 2005, available at [http://www.cacianalyst.org/view_article.php?articleid=3663].

¹⁸ See: M. Spechler, op. cit. According to the Purchasing Power Parity (PPP) method, Kyrgyzstan's GDP is U.S. \$8.5 billion (*The CIA World Factbook 2005*, available at [<http://www.cia.gov/cia/publications/factbook/>]); however, the PPP figures should be questioned when they derive from the economies that do not have developed political, financial, and legal institutions that are essential to fix the value of national capital, and generate wealth.

¹⁹ See: K. Jenkins, op. cit.

²⁰ See: "Country Profile: Kyrgyzstan," p. 6.

²¹ See: Ibidem.

²² See: Ibid., p. 8.

²³ See: M. Ablezova, G. Botoeva, T. Jukusheva, R. Marcus, E. Satybaldieva, "A Generation at Risk? Childhood Poverty in Kyrgyzstan," *CHIP Report No. 15*, The Childhood Poverty Research and Policy Center, 2004, pp. 41-46.

²⁴ See: Ibid., p. 18.

²⁵ See: M.B. Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, United States Institute of Peace Press, Washington, DC, 1996, pp. 91, 98-99.

terms of offering major production or distribution structures or attracting them from its immediate neighborhood. When Bishkek was invited to join the WTO, all the neighbors of Kyrgyzstan were non-WTO members, with most of them having little prospects joining this organization anytime soon. The Kyrgyz membership in this organization was motivated by political considerations: it was advantageous for leading WTO members to have a country with an open economy in the area of the world that has been historically dominated by autocratic regimes. This step was also made possible by the fact that Kyrgyzstan had no chance of becoming an economic competitor to any other WTO player with or without some of its post-Soviet mercantile measures in place.

Kyrgyzstan achieved nothing from its WTO membership. A small and remote mountainous country rarely gains much by dropping its industrial and trade policies and opening up the economy to foreign imports. Since its inception at the end of the GATT Uruguay round, the WTO has mostly benefited developed industrialized nations, but not poor developing ones. As such this organization has been a failure in international trade. It is quite likely that the leadership of Kyrgyzstan joined the WTO because of their expectations of political benefits derived from the membership in this organization rather than for calculated economic advantages.

The Akaev regime was quite eager to follow measures of economic austerity and privatization imposed upon the country by the International Monetary Fund. The IMF demanded Bishkek to privatize national enterprises in a short time period, and Akaev and his associates were happy to oblige. Consequently, many major and important industrial assets ended up in the hands of the Akaev family and friends.²⁶ The rushed privatization had negative consequences: privatization proceeded without necessary legal and political structures being in place. There was no clear vision and only ambiguous regulations in managing monopolies and promoting fair competition.

It is interesting to note that the traditional Marxist and neo-liberal conceptions of methodology of economic development coincide when it comes to prescriptions given to countries in transition. Both schools insist that in transition the economy comes first and everything else just follows: according to Marxists it is the economic base that defines superstructure, and neo-liberals, whose economic dogmas have replaced those of Marxists in most former Soviet republics, insist on economic reforms first and assume that political and legal institutions will just fall in place. In fact, there is not a single historical evidence supporting “the economy first” model. There is not a single economically successful country in the world without well structured political and legal institutions. At the same time, all poor countries have had plenty of economically motivated revolutions and/or reforms.

It was no accident that the Tulip Revolution started in Jalal-Abad and Osh, in more agricultural areas of the country’s south. Among the demands imposed by the IMF had been privatization of agricultural land, and the abolition of agricultural and other subsidies.²⁷ Southern parts of Kyrgyzstan, where Osh and Jalal-Abad are found, are mainly agricultural, and northern areas, where the capital city, Bishkek, is located, are more urban. Kyrgyzstan inherited uneven development between urban and rural areas, the latter being less developed (this is a permanent feature for not only post-Soviet nations, but for all developing countries). This unevenness was further entrenched by Bishkek’s abolition of agricultural and transportation subsidies. For poorer residents of southern Kyrgyzstan it was no longer profitable to grow agricultural products and take

²⁶ See: M.B. Olcott, *Central Asia’s Second Chance*, Carnegie Endowment for International Peace, Washington, DC, 2005, p. 107.

²⁷ For an optimistic evaluation of the IMF reforms, see a presentation by the World Bank Resident Representative to Kyrgyzstan Michael S.V. Rathnam, “Foreign Investment During the Transition: How to Attract It, How to Make Best Use of It,” a paper presented to the International Conference in Honor of the Fifth Anniversary of the Kyrgyz Som—*Challenges to Economies in Transition: Stabilization, Growth and Governance*, Bishkek, 27-28 May, 1998, available at [<http://www.imf.org/external/np/eu2/kyrgyz/pdf/rathnam.pdf>].

them to Bishkek for trade. With agricultural and/or transportation subsidies being in place, they had better incentives of doing that. In other words, such subsidies kept people in southern Kyrgyzstan employed and provided them with some income. With the subsidies gone, the unemployment in southern rural areas increased, and uneven development between the country and the city became even more pronounced.

Further, in the 1990s, southern areas of Kyrgyzstan had more population than northern areas.²⁸ When land reform was initiated in the 1990s, it was decided to divide the arable land equally among the members of the Soviet-style collective and state farms. The land share per individual was calculated by dividing seventy-five percent of the total arable land by the number of people eligible for the shares. Seventy-five percent of the arable land was distributed among the eligible citizens of Kyrgyzstan who were born before 1 January, 1996, and the remaining twenty-five percent has been reserved in the country's Land Distribution Fund. As a result, the residents of the southern provinces ended up worse off: "the actual arable land distribution varied between 0.75 and 1.5 hectares per capita in the northern provinces, and 0.1 and 0.3 hectares per capita in the more populous southern provinces."²⁹ This fact combined with the absence of agricultural subsidies relegated the southern areas of Kyrgyzstan to the situation of economic hardship and deprivation.

Kyrgyzstan's land reform was badly designed and implemented. There were substantial inequalities in land distribution, and corruption played its ugly hand in the process as well.³⁰ However, authorities' decision to rent the Land Distribution Fund property³¹ (created with the twenty-five percent share of the total arable land) rather than to distribute it among those who were unfairly treated by the privatization process or were born after 1 January, 1996, was clearly guided by the tenets of "trickle-down economics," an approach favored by the IMF and the World Bank. Only those with substantial funds could afford to rent land from the reserve fund, but not those who needed it most, especially in the southern provinces. This decision further entrenched poverty in the country, and helped the alienation of the south from the north.

The Uruguay Round of negotiations, which concluded with the creation of the WTO in 1994, does not prohibit agricultural subsidies. The European Union, Japan, and the United States, for instance, subsidize heavily their agricultural sectors. In theory, others could do the same; however, developing countries that are members of the WTO, like Kyrgyzstan, constantly need loans from the IMF. The latter organization imposes measures of economic austerity on its clients that, among other policies, prohibit agricultural subsidies. Further, the IMF negotiates its deals with national government in great secrecy, and strongly discourages a release of its policy recommendations to the general public. There was no general political debate on IMF advocated reforms in Kyrgyzstan, and the public was not properly informed about them. Therefore, the residents of southern Kyrgyzstan could not possibly understand that their economic hardship was due to the economic reforms imposed by the IMF, but blamed their disadvantaged status on the fact that President Akaev was a northerner, and they supposed that he did not care about the south.

The north-south divide in the country is even further exacerbated by ethnic factors—just like everywhere else in Central Asia, Kyrgyzstan has sizable portion of national minorities. In the southern provinces more than one-third of the population is composed of ethnic Uzbeks. They are mostly not integrated with the majority, and largely reside in ethnically homogenous communities.³² The fact that after the land reforms of the 1990s the southerners ended up with only 0.19

²⁸ There has been a noticeable demographic shift in Kyrgyzstan since the 1990s, whereas many people migrated to urban areas and left mostly agricultural southern provinces, and moved to northern areas in search of employment.

²⁹ M. Ablezova, *et. al.*, *op. cit.*, p. 13.

³⁰ See: *Ibid.*, pp. 13-14.

³¹ See: *Ibid.*, p. 14.

³² See: M.B. Olcott, *Central Asia's Second Chance*, p. 108.

hectares of the arable land share per capita as opposed to 0.53 percent in the north, was also interpreted as a deliberate policy by the northern dominated Akaev administration to discriminate the Uzbek minority. The southern population of Kyrgyzstan is also more religious. With their ill-advised, planned, and implemented economic reforms, the IMF and the Akaev administration inadvertently created a fertile ground for such radical organizations as Hizb ut-Tahrir (“the Party of Liberation”), which reportedly pays its members between 50 and 100 U.S. dollars to distribute propaganda literature.³³ The main stated goal of Hizb ut-Tahrir is the creation (or “restoration,” as they word it) of an Islamic caliphate state,³⁴ and as such it is an organization opposed to the idea of independent Kyrgyz statehood.

Essentially, the IMF, the World Bank, and the WTO have undermined the tenets of national sovereignty and statehood in Kyrgyzstan. Their policies have indirectly helped the groups like Hizb ut-Tahrir, as well as criminal groups to gain strong foothold in the country. Policymakers and bureaucrats of these powerful international institutions do not fully understand all the implications of their desires to have strong markets and weak state institutions in developing countries. The role vacated by weak political institutions are sooner or later filled by social, economic, religious, revolutionary or criminal institutions. In the West, where there are well developed civil societies and well functioning market institutions present, weaker state institutions do not normally create problems—the gap created by their departure is quickly filled by the market and/or civil society. However, in poor, developing, and transitional countries normally revolutionaries, radicals, extremist groups or even worse, criminals, replace the vacuum created by weak state institutions.

Hizb ut-Tahrir has so far maintained its non-violent status, but in the 1990s and early 2000, Kyrgyzstan experienced incursions by violent groups, notably by the Islamic Movement of Uzbekistan. In 1999, 2000, and 2003, Islamic insurgent and terrorist groups staged both major and minor incidents in the country. They have been active in the southern Kyrgyzstan, mostly in Batken and Osh.³⁵ The Osh area is also distinguished as a major transit region for narcotics and trafficking in people. Since 1992, narcotics production and consumption has grown significantly in the country. According to the 2005 estimates, Kyrgyzstan had the third highest rate of opium addiction in the world.³⁶

The practice of many farmers turning to subsistence crops damaged the country’s exports and negatively affected national wealth. In 1990, about 50 percent of Kyrgyzstan’s exports were agricultural. After sharp reductions in the 1990s, by the early 2000s agricultural production approached 1991 levels.³⁷ The country’s arable land depends heavily on irrigation systems (about 70 percent).³⁸ Irrigation or the lack of such has been a major problem for all farmers since the break-up of the Soviet Union. The Kyrgyz government has had no industrial policy to address the questions related to the lack of irrigation or pesticides.

The obvious and clear problems in the Kyrgyz economy and finances have not deterred its foreign creditors and applauders. In 1996, Kyrgyzstan was praised as “the most liberal ... for market entry and the establishment of new firms within the former USSR,” and the “Switzerland of the East.”³⁹ As it was mentioned above, prior to the Tulip Revolution, the IMF had never failed to praise Kyrgyz reforms. A 2004 report by Anders Aslund praising economic reforms by Akaev, and predicting great success for his policies in the future (the Akaev regime lasted only nine months after

³³ See: *Ibid.*, p. 113.

³⁴ See: “Definition: The Reasons for the Establishment of Hizb ut-Tahrir,” available at [<http://www.hizb-ut-tahrir.org/>].

³⁵ See: “Country Profile: Kyrgyzstan,” p. 16.

³⁶ See: *Ibid.*, p. 15.

³⁷ See: *Ibid.*, p. 7.

³⁸ *Ibid.*, p. 4.

³⁹ M. Dabrowski, R. Antczak, *op. cit.*, pp. 24-25.

the publication of the report), reads like a motivational story written about a completely different country.⁴⁰ In 1995, the CSCE (now OSCE—the Organization for Security and Cooperation in Europe) praised as democratic the Kyrgyz parliamentary elections that were marred with incredibly flagrant irregularities.⁴¹ The stamp of approval by the CSCE was essential for both Akaev administration and financial donors to secure wide political support for future loans for the country. The 1995 OSCE report is in stark contrast with this organization's current attitude toward the country. Its current representative to Kyrgyzstan has recently declared that he "was upset with the absence of a consensus between the participants of the political process in the Republic of Kyrgyzstan." Ambassador Markus Mueller wisely added, however, that he was not panicking about the fact yet.⁴²

Foreign investors have not favored Kyrgyzstan much despite the laudatory reports by the IMF and others. The Canadian Kumtor Gold Company remains to this day the largest foreign investor in the country. An agreement between the Kyrgyz government and this Canadian firm was signed back in December 1992, without any other competing bids considered. Recently, Kumtor Gold Company was found guilty of tax evasion by a court in Bishkek—allegedly, for "many years" the company has not been paying land tax to the country, which by February 2006 amounted to 47 million soms, plus fines.⁴³

C o n c l u s i o n

A major result of IMF's misguided demands and recommendations, and Kyrgyzstan's membership in the WTO has been a U.S. \$2 billion foreign debt, the amount equivalent to the nation's GDP. The IMF has only recently noticed that the Kyrgyz economy faces a severe crisis, but not the fact that this crisis is a direct result of IMF's irresponsible policies in the country. The foreign debt of Kyrgyzstan has reached dangerous levels, and debt service adds major strain on its economy. More than 50 percent of the country's population, and almost everyone in rural areas live in absolute poverty.

The Doha round of the WTO, which was concluded in December of 2005, ended up in a failure. Kyrgyzstan gained nothing from its membership in this organization—its remote location prevented it from developing new trade partnerships beyond its traditional partners in the region.⁴⁴ It is unlikely that Kyrgyzstan will gain much from the WTO, whether a new round manages to revamp it or not. While the more affluent members of the WTO are busy negotiating new deals, Kyrgyzstan could take advantage by developing its own industrial and/or trade policies. The new Kyrgyz government has to take notice of major mistakes its predecessor made, and misguided advises their country received from

⁴⁰ See: A. Aslund, *The Kyrgyz Republic: Reinforce Economic Growth through Lower Taxes and Better Governance*, published by *Carnegie Endowment for International Peace*, 17 June 2004. Professor Aslund worked as an economic advisor to President Akaev from 1998 to 2004, a position funded by the United Nations Development Program. There could be a good explanation why his 2004 report reads like a work of fiction—as he acknowledges in the Introduction of his report, his analysis is based on his visit to Kyrgyzstan in May 2004, when he spent one week and one day in the country, "and extensive reading of analytical reports before and after that trip" [<http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=1564&prog=zru>].

⁴¹ See: E. Huskey, "Kyrgyzstan: the Fate of Political Liberalization," in: *Conflict, Cleavage, and Change in Central Asia and the Caucasus*, ed. by Karen Dawisha and Bruce Parrot, Cambridge University Press, Cambridge, 1997, p. 261.

⁴² See: "Glava missii OBSE v KR: My ne khotim panikovat', no rasstraivayet otsutstvie konsensusa sredi uchastnikov politicheskogo processa v KR," *Akipress Information Agency*, 17 February, 2006, available at [<http://news.akipress.org/news/26118>].

⁴³ See: "'Kumtor' proigral isk," *Moya Stolitsa*, 17 February, 2006, available at [<http://www.msn.kg/page.shtml?option=item&year=6&mon=2&id=13017>].

⁴⁴ See: "Country Profile: Kyrgyzstan," p. 8.

the IMF. It is fashionable in post-Soviet states to blame corruption and mismanagement for reform failures. Corruption and bad management practices, as negative as they are, have to be taken into account when economic reforms are devised. Recipes offered by the IMF imply the existence of some ideal economic situation in Kyrgyzstan that are devoid of reality and can never materialize in that country or anywhere else.

Kyrgyzstan's main generator of wealth has been its gold exports. Its hydro energy resources are also very promising for future wealth generation, as well as its coal deposits and tourism industry. The country does not have to be concerned with global free trade arrangements—considering what gold and other metal prices are today, it is most unlikely that Kyrgyz or any other gold export will be penalized by trade tariffs or non-tariff barriers. Even if Kyrgyzstan violates WTO rules it is unlikely ever to register with bigger trade players, and if Bishkek drops its membership in this organization it may only benefit the country. There will always be need for gold, and buyers of various metals Kyrgyzstan has to offer, no matter a seller is a member of the WTO or not. With rising energy prices and Kyrgyzstan's abundant hydropower and coal reserves, Bishkek should not have problems attracting investors or raising funds to supply electricity to its neighbors, especially to China.

Kyrgyzstan has been a good ally to Russia, and more recently to the United States. The latter has operated an air force base in Manas since 2002, which has been crucial for the Operation Enduring Freedom in Afghanistan. To calm down Russia's anxiety, Bishkek has given the Kant air force base to Moscow. Kyrgyzstan's relations with China have improved steadily since 1992, as trade relations have increased and the border issues have been settled. Bishkek will do much better if it tries to cultivate bilateral ties with important players in Central Asia than to rely on memberships in multilateral organizations. Despite its remote location, now Kyrgyzstan has much to gain in America's interest in Central Asia (provided Bishkek plays its cards right), Russia's renewed desire to stay in the region, and China's rising appetite for energy. Indeed, in September 2005, the new administration of President Kurmanbek Bakiev, who was elected in July 2005, reassured Washington that the U.S. troops in Manas may remain there until stability is achieved in Afghanistan.⁴⁵ In the same month, Bishkek signed a bilateral agreement with Moscow, which envisions expanded Russian military aid, arms sales, and aid in building energy infrastructure.⁴⁶ Turkey, Kyrgyzstan's natural ally, and other Middle Eastern countries could also help with new venues of bilateral opportunities. Kyrgyzstan will also benefit from closer ties with South Korea and Japan, and an emerging economic giant, India.

Kyrgyzstan needs strong state institutions, and well designed industrial and trade policies in order to survive as a single nation, and avoid violent unrests and disturbances motivated by Islamic militancy or something else. The country also needs help from major powers with vested interests in Central Asian security and stability, Russia, the United States, and China. Kyrgyzstan's reliance on international institutions such as the IMF and the WTO has not served the country well, and the new government in Bishkek will do better if it focused more on the country's bilateral links and relations.

⁴⁵ See: *Ibid.*, p. 14.

⁴⁶ See: *Ibid.*, p. 13.

THE INVESTMENT SECTOR AND TNC ACTIVITIES IN THE KYRGYZ REPUBLIC

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In recent years, the activities of transnational corporations (TNCs) have been a key element in the development of international economic relations. On the one hand, these companies are a “product” of the intensively developing world economy, since their operation provides the basis for economic growth and technological progress in any country. On the

other hand, TNCs are a powerful mechanism for influencing the economy of states and the world as a whole. Kyrgyzstan is no exception in this respect: the slightest change in the economic situation in the country tends to have a strong influence on the activities of the TNCs, which, for their part, take these ups and downs “very hard.”

How Did It All Begin?

After gaining independence, Kyrgyzstan took the path of transition from the centralized planned economy to a market-oriented economy. For objective reasons the republic met with a number of economic difficulties: rupture of trade ties, sharp drop in production, crisis of the management system, etc. These negative processes made it necessary for the government to develop new approaches in the field of economic reforms.

The severest problem was the financial one: the huge deficit of the state budget and the lack of long-term credit resources and funds at the disposal of enterprises pointed to the objective need for attracting foreign investment. Everyone understood that the attraction of foreign direct investment (FDI) and advanced technologies would enable the country to develop its industrial base, gain international experience, enter the world market with its own products, create additional jobs, and strengthen its national currency.

Nevertheless, Kyrgyzstan’s integration into the world economic system has turned out to be much more complicated than expected. In the beginning, it was not all plain sailing for Kyrgyzstan in its efforts to attract foreign capital, and the republic has had to travel a difficult road before achieving the current indicators.

For many decades, the Kyrgyz economy developed as a component part of the single economic complex of the former Soviet Union, under tight centralized control. After the declaration of independence on 31 August, 1991, the republic entered a new period: it got an opportunity to

formulate its own economic policy, but the real possibilities for the pursuit of such a policy were limited by Kyrgyzstan's close integration ties with the economy of other CIS countries, especially the Russian Federation. The crisis engulfing all aspects of economic and social life in the republic gathered momentum. Industrial production fell by 26.4% in 1992, 24.2% in 1993 and 24.5% in 1994.

As early as 1993 the authorities approved a liberal code of rules for foreign investment and a law on mining concessions, established "preferential" customs rules and took many other steps, but this did not yield any results. For example, Kyrgyzstan never actually managed to fully expand and develop the manufacture of audio and video equipment jointly with the Gold Star corporation, started in the city of Tokmok in 1993. And this is quite understandable: after all, the class of local businessmen was just beginning to take shape, most joint ventures with private foreign capital existed only on paper, and little progress had been made in the development of free economic zones, industrial or technology parks. This made it necessary to devise and implement a special economic policy.

Although the Kyrgyz government did a great deal to create a favorable climate for local and foreign investments, the former kept shrinking and the latter did not really "get going" until 1994.

The investment process was in effect blocked by inflation. Bank interest rates were too high and inaccessible to an overwhelming majority of enterprises. But even these interest rates fell short of the rate of inflation and were thus negative. Banks were not interested in granting long-term credits and virtually did not do so.

The economic situation in industry in the process of transition to market relations led to a decline in production and to financial difficulties at many enterprises, which meant that less attention was paid to quality in the production and sale of goods. Many managers did not realize that in market conditions the survival of commodity producers is directly dependent on the quality of their products, and this led to a reduction in the number or even to a total liquidation of quality control departments, which contributed to the sharp decline in the competitiveness of domestic products compared to those of foreign companies. In that period, the activity of many enterprises and firms was directed (in most cases) toward the importation of goods, and TNCs launched a sales expansion in the country (whereas their investment activities got underway later). This had a negative effect on the accumulation of foreign exchange in the republic. It should be noted that many domestic enterprises were at a standstill because of fraudulent bankruptcies aimed at tax evasion and concealment of their ability to pay.

Even at that time it became clear that direct investments had to be used to retool and renovate enterprises (to change their product mix) with the use of many local raw materials. These investments had to go into production and the development of enterprises capable of quickly producing good and necessary products for the domestic and foreign markets. This brought into sharper focus the purpose of applying advanced technologies: to produce low-cost, high-quality and competitive products for profitable sale in the domestic and foreign markets.

Starting from 1994, the situation changed dramatically. Liberalization of foreign trade made it possible to intensify the republic's economic relations with FSU and other countries. An open economy helped to saturate the market with goods, to avoid shortages and stabilize the inflation level. All of this created a competitive environment for domestic enterprises, inducing them to upgrade production, enhance product quality, reduce production costs and conduct market research, i.e. to learn to live in market conditions as soon as possible. There was also an increase in the number of joint ventures and foreign enterprises in the republic (Table 1).

On 1 January, 1999, the country had 4,004 registered enterprises with foreign investment, including 2,068 operating enterprises, which means that about 51.6% of all registered joint ventures

Table 1¹

**Registered and Operating Enterprises
with Foreign Investment**

	Registered	Operating
1993	125	43
1994	627	128
1995	1,288	363
1996	2,191	908
1997	3,272	1,396
1998	4,004	2,068
1999	4,130	1,470
2000	5,277	2,026

and foreign enterprises were in operation. In 1998, the authorized capital of enterprises with foreign investment totaled 2,121.2 million soms (KGS), with Kyrgyzstan's share amounting to 25.4%. Enterprises with foreign investment in 1998 made up 13% of all commercial entities (30.5 thousand registered entities). Out of the total number of operating enterprises with foreign investment (2,045 enterprises), 845, or 41.3%, were set up by firms from FSU countries, and 58.9%, by non-FSU firms.

Most foreign investments went into industry. However, the share of foreign companies and joint ventures in industry did not exceed 25% of all enterprises with foreign capital, about 46% of which were usually very small and were concentrated in trade and in the restaurant and hotel business. Even in 2000 foreign investments were the main source of capital formation, making up 73% of the total. One can say that the economy began to stabilize in 1996. The increase in industrial production (by 10.8% compared to 1995) was due to growth in the energy sector and the food industry, although in some industries (especially engineering) production continued to decline.

The creation of joint ventures and foreign enterprises in trade and public catering (52.2% of their total number) is explained by their short payback periods, and also by the lack of demand for long-term investment and the absence of a policy designed to promote production by granting benefits and preferences to investors.

The largest volume of industrial products and services was produced by gigantic joint ventures in the republic. In 1998, industrial enterprises with foreign investment in the Issyk Kul Region produced KGS 4,175.7 million worth of goods, or 93.3% of the region's total industrial output (KGS 4,474.8 million), and the largest contribution was made by the Kyrgyz-Canadian Kumtor Gold Company, a subsidiary of Canada's Cameco Corporation (78.2% of industrial output produced by the region's enterprises with foreign investment). Overall, the output of enterprises exploiting the Kumtor deposit in 1998 amounted to KGS 8,112.5 million (38.5% of industrial production in the republic).

¹ Here and below we cite data of the National Statistics Committee of the Kyrgyz Republic (from 1993 to 2004).

In the Chu Region in 1998, JV Bakai turned out KGS 738.4 million worth of products, or 58.5% of industrial output produced by enterprises with foreign investment in the region. In the Jalal-Abad Region, JV Kyrgyz Petroleum Company produced KGS 280 million worth of oil products, which amounted to 60.9% of industrial output produced by enterprises with foreign investment in the region.

In the country's capital, production is carried on by such international companies or joint ventures as Coca Cola (nonalcoholic beverages), Bakai (sugar), Kitlap (food industry), Chui-Glass (glass containers), Bakai-Suu (mineral water), Eridan-Sut (dairy products), Simex (furniture) and Ice Queen (ice cream).

In 1998, foreign companies and joint ventures produced goods and services for the amount of KGS 6,935.7 million, or about 20% of the republic's GDP. In the event, virtually 100% of such products as diesel fuel, computers (assembly), glass containers, tea and salt were produced by foreign enterprises. Moreover, 59.8% of sugar, 83.9% of gasoline and 55.8% of knitwear were also produced by such entities.

As regards the foreign economic activities of enterprises with foreign investment in 1998, imports totaled \$316.5 million, and exports, \$96.9 million.

To sum up the results of that period, let us note that the scale of foreign investment in the Kyrgyz Republic was relatively small (cumulative FDI from 1993 to 1998 amounted to \$80.4 per capita), not counting the Kumtor mining project, which accounted for over 30% of total industrial output in the country.

What is Happening Today?

From 2001, the investment situation in Kyrgyzstan, greatly enfeebled by the consequences of the Asian and Russian financial crises, gradually began to stabilize. In 2001-2004, the inflow of foreign direct investment totaled KGS 528.4 million, with an average annual increase of 26.7% (Table 2).

Table 2

Structure of FDI Inflows
in 2001-2004 (million U.S. dollars)

	2001	2002	2003	2004
Total FDI	175.6	147.0	115.7	90.1
<i>of which:</i>				
Share capital	33.2	23.4	26.2	23.1
Financial leasing	0.7	3.7	—	—
Retained earnings	48.0	21.8	9.0	12.8
Other capital	93.7	98.1	80.5	54.1

Investments mostly flowed into the manufacturing industry, and also into the trade and financial sectors. That was when the investment activities of the TNCs began to gather momentum.

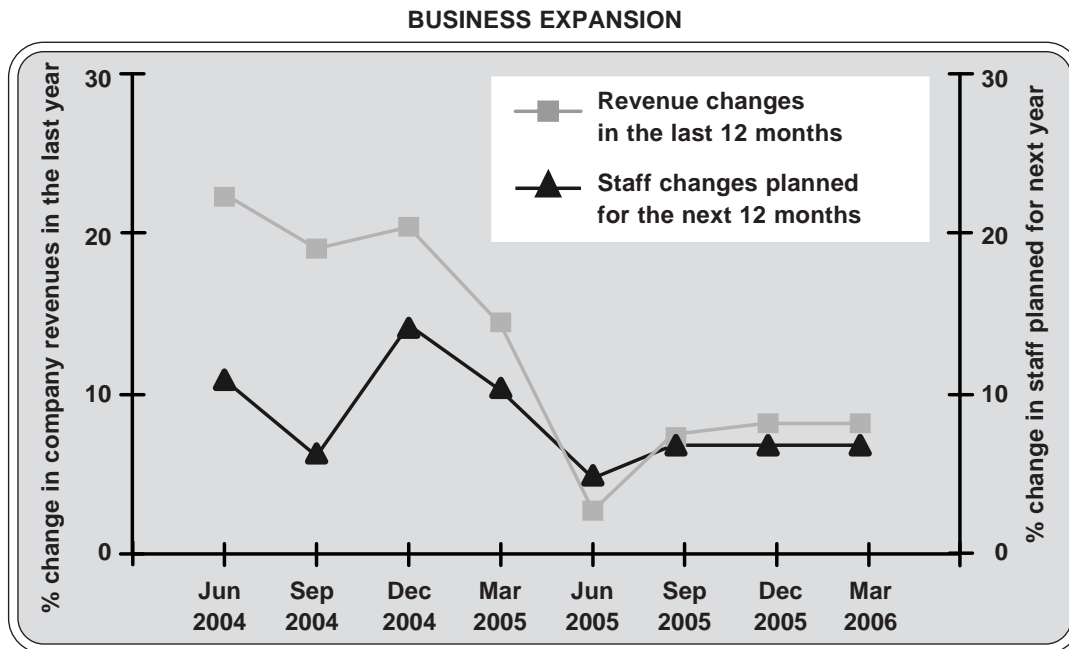
A quarterly survey carried out by the International Business Council (IBC) of Kyrgyzstan (an association of the republic's business entities, including TNCs, which accounts for over \$1 billion of investment in the Kyrgyz economy and over 10,000 employees) shows that the earnings of companies operating in the country have increased by an average of 8% over the past year. This is an improvement compared to June 2005, when this indicator averaged 3%, but a significant decline compared to the 20% annual increase in 2004. The figures for personnel recruitment plans have not changed since December 2005: a 7% increase in staff projected for the following year.²

The respondents who took part in the survey had invested about \$140 million in Kyrgyzstan in 2005 and were planning to invest another \$200 million in 2006, which amounts to a projected 43% increase in investment. The mining sector accounts for about 70% of projected investment, given that the mining industry today is at a record level throughout the world due to high gold prices. Investments in other sectors of the Kyrgyz economy are in a state of stagnation.

As things stand today, enterprises with active participation of foreign TNCs are not very numerous, but among them there are such large ones as the Kumtor Operating Company, Coca Cola Bishkek Bottlers, Reemtsma Kyrgyzstan, Interglass, Alliance Oil Company, Bitel, MegaCom and others. I would like to say a few words about these companies.

In gold mining, the largest project and one of the first enterprises in the territory of Kyrgyzstan set up with the participation of a large foreign corporation (Cameco) is JV Kumtor Operating Company. It exploits one of the world's largest gold deposits at Kumtor with reserves of about 615 tons. Overall, the republic has more than 1,000 gold deposits explored in varying degree.

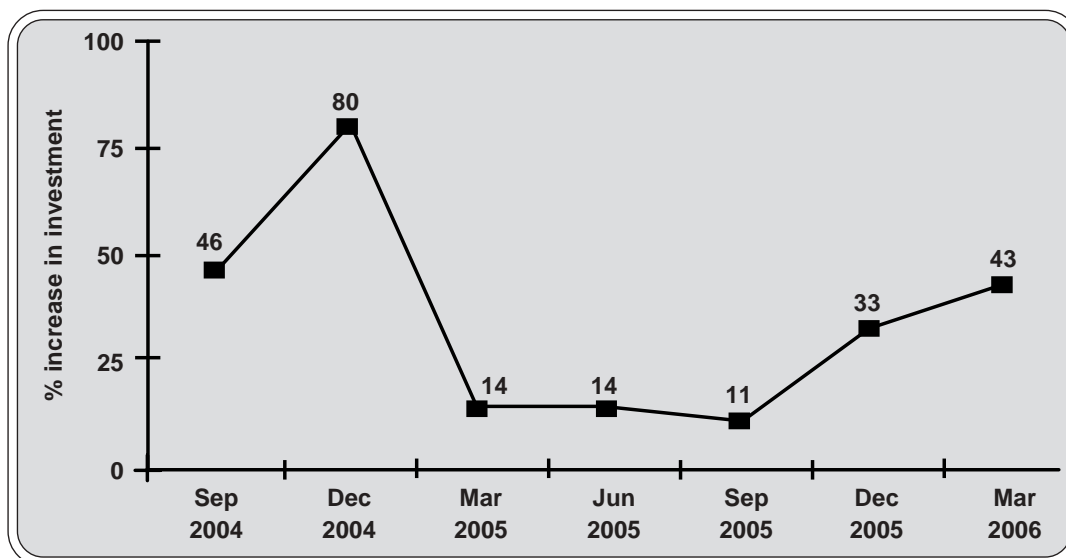
Diagram 1



² See IBC Report for the 1st Quarter of 2006.

Diagram 2

INVESTMENT PLANS



Another company, Coca Cola Bishkek Bottlers, was set up on 12 July, 1995. It is a business association in the form of a closed joint stock company. The first trial run of the line for the production of Coca Cola took place on 8 May, 1996. Its capacity is 6,000 liters or 24,000 bottles per hour. The plant makes soft drinks such as Coca Cola, Fanta and Sprite (in glass and plastic bottles). The main object of its activity is the production, bottling and sale of beverages. The company buys, sells wholesale and retail, imports, exports and transports all kinds of goods, equipment, raw materials, finished and semi-finished products, and other materials required for its activities. The plant is fitted out with the latest equipment and automatic systems installed by American, German and Turkish specialists with the participation of Kyrgyz engineers.

The Reemtsma Kyrgyzstan company (a part of the Reemtsma Group) is the republic's largest enterprise producing tobacco goods. About 60% of the tobacco used in their production is grown in the south of the country, which is proof of one of the main lines of the company's activity: support of domestic business. The plant's design capacity is 12 billion cigarettes per year, but so far the actual figure is 3.5 billion. Although the company is still in the initial phase of its development, it is already exporting its brand to Afghanistan, Kazakhstan, Uzbekistan and Tajikistan. Cigarettes produced by Reemtsma Kyrgyzstan make up about 60% of the republic's total tobacco market. The plant employs 500 Kyrgyz citizens, but if we look at the whole chain—tobacco growing, sweating, processing and sale—estimates will show that the enterprise employs from 50,000 to 200,000 people.

The former Ainek plant is now called Interglass, and its owner is Germany's Steinert Industries GmbH & Co KG. This plant is located in the industrial zone of the city of Tokmok (Kyrgyzstan) and has 15 production buildings. Its technical capabilities today are such that it can provide the market with a wide range of glasses: window, plate, furniture, mirror, bulletproof, automotive, decorative and tinted. At present, it has 1,500 highly professional workers and employees. The main task of the Interglass plant today is to supply sheet glass to Central Asian countries and Siberian cities, and also to launch out into markets in other Asian countries.

The companies Bitel, MegaCom, Fonex and Katel are part of a single chain in the development of cellular communications in Kyrgyzstan. Their total turnover is over \$100 million; each of them represents such brands as MegaFon, MTS, Alliance Group, and others.

Special note should be taken of prominent companies in retail and wholesale trade (Beta, known under the brand name of Ramstore, JV Forester with its Narodny retail trade network) and in the banking sector (Demir International Bank, Halyk Bank and others).

Consequently, Kyrgyzstan is gradually going over to the investment stage of development with active participation of foreign capital, especially TNC capital.

What Lies Ahead?

An analysis of the current situation in the field of foreign investments shows that since 1997 there has been a steady negative trend toward a decline in their level. Presumably, the abolition of a number of investment initiatives of a tax and legal nature has significantly worsened the investment climate in the republic with a resultant decline in foreign investor interest. By comparison, our neighbors have done a great deal to improve the investment climate in their countries, and their efforts have led to an increase in investment. Of course, a certain role was played by the Kyrgyz revolution of 24 March, and also by the global financial crisis that broke out in the Asian region and entailed significant financial changes in the world (including Russia, Kyrgyzstan's main economic partner). These events have had a considerable effect on economic activity in the country, but nevertheless the main reasons for the smaller inflows of investment lie elsewhere. The "sources" of the unfavorable investment climate in the country are as follows:

- insignificant domestic economic resources;
- limited agricultural area;
- small domestic market;
- unstable legislative framework;
- vast number of rules and regulations often conflicting with basic laws;
- poorly developed communication infrastructure;
- the population's low ability to pay;
- unstable policy of neighboring states in the field of transportation and tariffs;
- high transportation costs in the export of goods;
- the existing licensing system, the need to obtain numerous authorization documents, bureaucracy and corruption;
- insufficiently developed financial sector.

All these factors markedly reduce Kyrgyzstan's attractiveness in the eyes of potential investors.

Yet another negative factor is the uneven distribution of investment across the regions, which has a direct effect on living standards in different regions. This leads to further stagnation in some of our regions which seem unpromising in the eyes of investors, spurring migration and creating social tensions. Accordingly, the state's current policy and its main priority should be to create a favorable

and profitable investment environment for investors by means of appropriate initiatives and incentives, so evening out the development of our regions.

Investors who want to operate in our market are not philanthropists: first and foremost they are businessmen and their main concern is to “recover” their investment and earn a profit. That is why in making an investment decision they start with a thorough assessment of all the costs and risks under the existing investment regime, and only then, given positive results, we can expect their appearance in our markets. So, in order to “overcome” the negative factors the authorities should take proactive steps to foster an investor-friendly environment, offer significant incentives to investors, and create an effective administration system for attracting direct investment.

Today the main factor behind an investor’s decision on whether to invest his money in a country or not is the tax regime. Foreign respondents say that inadequate and constantly changing tax legislation is the most serious problem. The course of implementation of investment projects indicates that investors would naturally like to have favorable conditions for investment, but what is more important for them is a reasonable, transparent and predictable tax system with optimal rates, which would maximize the state’s tax collections. Thus, whereas the 1997 KR Law on Foreign Investments provided for a tax holiday (in the form of an exemption from profits tax in the first few years), the latest legislation does not contain such provisions. Three developing countries (Laos, Indonesia and Kyrgyzstan) do not grant a tax holiday, and the latter is the only developing country in the world that does not compensate for the absence of such a holiday by a low rate of profits tax. One should note that our neighbors and at the same time our direct competitors for investment (China, Uzbekistan and Kazakhstan) actively offer such tax initiatives and simplified customs rules to investors.

It is particularly important to set precise priorities for investment in sophisticated products and services: design and manufacture of diverse machinery and equipment, processing lines, complex technology and production facilities, production efficiency management, etc., where even minor mistakes lead to big losses. For such cases the development of a multilevel system of priorities geared toward a single goal is a necessary condition for ensuring the quality and competitiveness of goods and services.

The advocates of the republic’s accession to the WTO assumed that Kyrgyz enterprises would be able to fit into global processing chains, find a place in the international division of labor and give a new impetus to rapid development of the investment sector. But now that Kyrgyzstan has been a WTO member for some time, there are no weighty statistical data to show that Kyrgyz enterprises are beginning to fit into transnational processing chains. It is also too early to talk about the adequate efficiency of free economic zones and joint ventures. Traditional supplies of such raw materials as antimony, tin or rare earth metals remain uncompetitive (in view of high production costs in the republic) in relation, say, to the Chinese market, where these products are offered at lower prices.

It should be noted that modern TNCs are powerful enough to pursue their interests in the regions they need and at the enterprises of any country even without the WTO. Kyrgyz enterprises whose technological level meets TNC requirements were in any case included within their framework even before WTO accession. It is easy to see that in these conditions Kyrgyzstan’s WTO membership or “non-membership” cannot seriously alter the requirements of any given TNC.

Nevertheless, the political and economic importance of transnational corporations is so great that in the foreseeable future they will remain one of the key factors exerting a growing influence both on the domestic and on the foreign sphere of Kyrgyzstan’s economic relations. Globalization dictates its conditions, and the republic’s active participation in this process is more imperative than even before. This suggests the obvious conclusion that conversion of our leading do-

mestic companies into transnational corporations should become a deliberate goal of state foreign policy. The creation of Kyrgyz TNCs within the framework of the CIS and other countries is not only an economically, but also a politically important task of Kyrgyzstan's industrial policy, especially since the first steps in this direction have already been taken. This is well illustrated by the activities of the Dastan Joint Stock Co in the Russian market and of the Shoro Company in the Chinese market.

REGIONAL POLITICS

**GREATER SOUTH ASIA—
AMERICA'S NEW REGIONAL APPROACH
TO CENTRAL AND SOUTH ASIA:
HOW IT IS DEVELOPING AND
WHAT PROMPTED IT**

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

Late in 2005 the United States opened a new page in its relationship with Central Asia as a region. Until that time the U.S. Administration still looked at it as a region in its own right, closely connected with the CIS and consisting of five post-Soviet states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Today the U.S. State Department is practicing a new approach based on an absolutely novel idea about regional division. Central Asia and South Asia form a single region, which I will call here Greater South Asia.

In this article I have undertaken the task of tracing the evolution of this approach, starting from the moment of its official recognition. I

shall also analyze the Greater Central Asia project of the Central Asia-Caucasus Institute of the Paul H. Nitze School of Advanced International Studies at the Johns Hopkins University, which the U.S. Administration adopted as the cornerstone of its new conception. I shall compare the projects of the U.S. Administration and the Central Asia-Caucasus Institute to arrive at certain conclusions.

I shall investigate Central Asia's new importance for the United States created by the new regional approaches. In addition, I shall analyze what prompted this approach (on which the Greater South Asia project rests) in the first place, as well as the aims the U.S. wants to achieve through the project.

Washington's New Approach to Central and South Asia

In October 2005, the United States first demonstrated its new approach to Central Asia and Afghanistan at the official level; later U.S. State Department spokesmen repeatedly confirmed it. It found its way into the press release the White House issued on the results of President George W. Bush's visit to Pakistan early in March 2006 and in the National Security Strategy of the United States of America published in the middle of March 2006. The U.S. State Department was re-structured accordingly; the Central Asian Infrastructure Integration Initiative program was launched.

The U.S. State Secretary Condoleezza Rice described America's new approach to the region for the first time in October 2005 during her Central Asian visit. On 13 October, 2005, speaking at the Eurasian National University of Kazakhstan, she said in particular: "Afghanistan needs the full partnership of this entire region to overcome the destitution that tyrants, and extremists, and warlords, and civil war have compounded over several decades. A secure and prosperous Afghanistan, which anchors Central Asia and links it to South Asia, is essential to the future of economic success."¹

Somewhat later, on 16 February, 2006, Richard Boucher, nominated to the post of Assistant Secretary of State for South and Central Asian Affairs, used similar terms when speaking at the Senate Foreign Relations Committee. "Afghanistan, at the center of this region, can be a bridge that links South and Central Asia, rather than a barrier that divides them,"² said he, since "South and Central Asia belong together."³

Information supplied by the White House on the results of President George W. Bush's visit to Pakistan early in March 2006 also used similar terms: the American president and President of Pakistan Pervez Musharraf pointed out that they were committed "to working together with Afghanistan to make Pakistan and Afghanistan a land bridge linking the economic potentials of South Asia and Central Asia."⁴

America's new approach to Central Asia became part of the National Security Strategy of the United States of America published in the middle of March 2006; one of its sections, "South and Central Asia," says: "South and Central Asia is a region of great strategic importance where American interests and values are engaged as never before;"⁵ "our relations with the nations of South Asia can serve as a foundation for deeper engagement throughout a Central Asia,"⁶ while "Afghanistan will assume its historical role as a land-bridge between South and Central Asia, connecting these two vital regions."⁷

In this way, the new approach presented first by the U.S. State Secretary Condoleezza Rice and then by President George W. Bush and registered by the National Security Strategy regards Central and South Asia as the elements of one region Afghanistan is expected to keep together.

¹ *Remarks at Eurasian National University*, Speech of Condoleezza Rice, U.S. State Secretary, at the Lev Gumilev National University of Kazakhstan, 13 October, 2005, available at [<http://www.state.gov/secretary/rm/2005/54913.htm>], 3 June, 2006.

² "Pursuing Peace, Freedom and Prosperity in South and Central Asia," remarks Ambassador Richard Boucher before the Senate Foreign Relations Committee, Washington D.C., 16 February, 2006, available at [<http://www.state.gov/p/sca/rls/rm/2006/61317.htm>], 3 June, 2006.

³ *Ibidem*.

⁴ *Joint Statement on United States-Pakistan Strategic Partnership*, White House press release, 4 March, 2006, available at [<http://www.whitehouse.gov/news/releases/2006/03/20060304-1.html?pagewanted=all&position=>], 3 June, 2006.

⁵ *The National Security Strategy of the United States of America*, March 2006, p. 39.

⁶ *Ibid.*, pp. 39-40.

⁷ *Ibid.*, p. 40.

Meanwhile, in Central Asia, Washington is lobbying an idea about Afghanistan as part of the region: "When I was in Central Asia, I was very much struck that the countries of Kyrgyzstan, of Kazakhstan, even of Tajikistan, very much see Afghanistan as a part of the region that is Central Asia,"⁸ said Condoleezza Rice in Washington on 5 January, 2005. Obviously, the idea of Afghanistan as a part of Central Asia, after striking root in the minds of the region's ruling elite, will help the U.S. to realize its new regional policies.

Ms. Rice's speech of 13 October, 2005 at the National University of Kazakhstan provides an idea of how Afghanistan could play its role. The U.S. State Secretary said, in particular: "The United States is fully committed to helping Kazakhstan and its Central Asian neighbors integrate themselves into the global economy"⁹ and added that they "already hard at work with our partners in Afghanistan and Tajikistan in rebuilding the roads and bridges that are essential to revitalized regional and global trade."¹⁰

At the same time, on 27 October, 2005, Daniel Fried, Assistant Secretary of State for European and Eurasian Affairs, speaking at the Subcommittee on the Middle East and Central Asia of the House International Relations Committee, said: "Regional economic development is one of our top policy priorities in Central Asia. We are deepening our support of the countries of Central Asia to expand regional trade and investment. The trade links of the ancient Silk Road need to be revitalized to provide Central Asia with greater access to the global economy, through both South Asia and Europe."¹¹

The Central Asian Infrastructure Integration Initiative with a budget of \$1 million the United States launched in October 2005 is designed to execute these plans; it is being carried out by the U.S. Trade and Development Agency and is aimed at Afghanistan, Tajikistan, Kazakhstan, and Kyrgyzstan. At the same time, the project might be extended to the region's other countries. Its authors have described the project's key tasks: "To connect Afghanistan with the rest of the world, to restore and build new infrastructure links between Central and South Asia, to increase stability of the entire region through greater people-to-people contacts."¹²

Within the Initiative, the Almaty-Bishkek-Dushanbe-Kabul-Karachi highway will receive priority attention. It begins in Almaty, crosses Kyrgyzstan, Tajikistan, and Afghanistan, and reaches Pakistan at the port of Karachi.¹³ Besides, much attention will be paid to the development of the energy systems for transferring electric power from Central Asia to Afghanistan and Pakistan.¹⁴ Other promising trends will be investigated within the project.

Washington clearly intends to implement the idea of turning Afghanistan into a link between Central and South Asia to integrate them into a single region. This will be accomplished with the help of U.S.-promoted transportation and energy corridors that will cross Afghanistan to tie Central and South Asia together.

⁸ "Central Asia Now 'Arc of Opportunity,' 'Not Crisis,' Rice Says," Washington file, 6 January, 2006, available at [<http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2006&m=January&x=20060106145107mvyelwarc0.2283594&t=xarchives/xarchitem.html>], 3 June, 2006.

⁹ "Remarks at Eurasian National University," 13 October, 2005, available at [<http://www.state.gov/secretary/rm/2005/54913.htm>], 3 June, 2006.

¹⁰ Ibidem.

¹¹ *A Strategy for Central Asia*, Speech of Daniel Fried, Assistant Secretary of State for European and Eurasian Affairs at the Subcommittee on the Middle East and Central Asia of the House International Relations Committee, available at [<http://www.state.gov/p/eur/rls/rm/55766.htm>], 3 June, 2006.

¹² *Central and South Asia Economic Integration*, Presentation of the U.S. delegation representative at OSCE, 14th OSCE economic forum, 23 January, 2006, available at [http://www.osce.org/documents/eea/2006/01/17816_en.pdf], 3 June, 2006.

¹³ Ibidem.

¹⁴ Ibidem.

Early in 2006, the U.S. State Department was restructured: Central Asia was taken away from the Bureau of European and Eurasian Affairs to become part of the Bureau of South and Central Asian Affairs set up on the basis of the Bureau of South Asian Affairs.

On 5 January, 2006, U.S. State Secretary Condoleezza Rice offered the following comment: "One of the things that we did in the State Department was to move the Central Asian republics out of the European bureau, which really was an artifact of their having been states of the Soviet Union, and to move them into the bureau that is South Asia, which has Afghanistan, India and Pakistan."¹⁵ "It represents what we're trying to do, which is to think of this region as one that will need to be integrated, and that will be a very important goal for us,"¹⁶ she added.

Obviously, this reform was carried out in connection with Washington's new approach to Central and South Asia and Afghanistan with the aim of adding efficiency to the U.S. State Department, and in particular with the aim of integrating Central and South Asia and developing Afghanistan as a link between these two regions.

The Greater Central Asia Project

America's new approach to Central Asia initiated by the U.S. State Department and the working project Greater Central Asia Partnership published in March 2005 by the Central Asia-Caucasus Institute of the Paul H. Nitze School of Advanced International Studies at the Johns Hopkins University are obviously connected. It should be said here that the July-August 2005 issue of *Foreign Affairs* carried an article by Frederick Starr, who heads the Institute, entitled "A Partnership for Central Asia," which outlined the project.

Mr. Starr subjected the approach to Central Asia and Afghanistan dominating America's policies then to mild criticism: "The geographical delineations used by the U.S. government prevent policymakers from recognizing Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan as comprising a single region,"¹⁷ which, he was convinced, "has impeded the development of a coherent Central Asia policy."¹⁸

The author offered an alternative project devised by his Institute based on the new regional approach to Central Asia, Afghanistan, and South Asia as a single Greater Central Asia region linked to South Asia by including Afghanistan into Central Asia, hitherto composed of five Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan), and by describing it as South Asia's natural extension.

He insists that the United States should make economic cooperation between Afghanistan and its neighbors one of its key priorities. Mr. Starr believes that, due to its geographic location, Afghanistan is Central Asia's natural outlet to the warm seas, therefore transport infrastructure, railways in particular, as well as transit gas and oil pipelines, are an absolute must for it. Trade and transit will help the region revive economically and politically, thus helping the five Central Asian countries and certain other neighbors to successfully address their own problems.

To realize the new regional approach, a new regional institute Greater Central Asia Partnership for Cooperation and Development (GCAP) with a forum status should be created. The author believes

¹⁵ "Central Asia Now 'Arc of Opportunity,' 'Not Crisis,' Rice Says."

¹⁶ Ibidem.

¹⁷ S.F. Starr, "A Partnership for Central Asia," *Foreign Affairs*, July-August 2005.

¹⁸ Ibidem

that it might be effective in the spheres of security, administration, democratization, economy, transport and trade, agriculture, and anti-drug efforts, as well as in religion, culture, and education.¹⁹ However, the partnership is mainly intended to promote economic integration between Afghanistan and its neighbors.

From the very beginning, the project has been described as an “open project” in which the United States, the Central Asian countries, and Afghanistan can cooperate with the members of the counterterrorist coalition, as well as regional actors—India, Pakistan, and Turkey—and Russia and China. Mr. Starr has taken the trouble of emphasizing that the project is not directed against the interests of the two latter states and that they might even profit from it.

He described India and Turkey as countries that, together with the United States, might become “unofficial guarantors of sovereignty and stability in the region.”²⁰ He also approves of Pakistan’s involvement, even if “its territory is still used by terrorists to mount raids into neighboring Afghanistan, and the Musharraf regime is no model of democracy.”²¹ Pakistan, India, and Turkey were quite logically invited to join GCAP in order to make them America’s allies within the project.

Greater South Asia Instead of Greater Central Asia

America’s new approach to Central and South Asia and Afghanistan is obviously based on the project of the Central Asia-Caucasus Institute. The core was carefully preserved, while the rest was somewhat corrected and enriched with a fundamentally different conceptual approach.

Both the Institute’s project and the U.S. Administration’s new regional approach stress the need to integrate Central and South Asia economically by stitching them together by means of transportation and energy corridors across Afghanistan.

To achieve this, the Institute suggested that a consultative regional GCAP forum should be set up to plan, coordinate, and implement programs in various spheres ranging from security to education. The forum should concentrate, though, on promoting economic integration.

The U.S. Administration, however, has not set up a similar regional multifunctional structure: it initiated the Central Asian Infrastructure Integration Initiative designed to encourage economic cooperation between Central and South Asia as well as development of Afghanistan by implementing regional projects in the energy, transport, and communication spheres. The Initiative can even be described as a “simplified” GCAP structure intended to accomplish the same tasks.

There is an obvious parallel between the restructuring of the U.S. State Department effected within America’s new approach to the region and that part of the work done by the Central Asia-Caucasus Institute that compares the structures of the U.S. Defense and State departments²² and recommends instituting the post of Assistant Secretary of State for Greater Central Asia.²³ There is an obvious connection between the Institute’s key recommendation to “arrange a visit by the President or Secretary of State to the region to launch GCAP”²⁴ and U.S. State Secretary Condoleezza Rice’s Central Asian visit in October 2005.

¹⁹ See: S.F. Starr, “A ‘Greater Central Asia Partnership’ for Afghanistan and Its Neighbors,” *Silk Road Paper*, March 2005, pp. 27-34.

²⁰ S.F. Starr, “A Partnership for Central Asia.”

²¹ *Ibidem*.

²² See: S.F. Starr, “A ‘Greater Central Asia Partnership’ for Afghanistan and Its Neighbors,” p. 13.

²³ See: *Ibid.*, p. 36.

²⁴ *Ibidem*.

It should be stressed that some of the Institute's propositions and recommendations were left beyond the scope of the new American regional policies: this is true of the GCAP forum idea, which was not fully realized, as well as certain recommendations the Institute described as key ones: broader powers for the U.S. ambassador in Kabul to coordinate GCAP implementation in the region, broader powers for the Department of Defense's top official in Afghanistan, and the post of senior counter-narcotics coordinator in Kabul.²⁵

Finally, there is an important conceptual distinction between the U.S.'s regional approach and the Institute's project. The Institute concentrated on setting up a Greater Central Asia linked to South Asia, while the new American approach looked at Central and South Asia as a single and interconnected region. This means that the Institute came forward with a conception of a new region it called Greater Central Asia linked to South Asia, while the U.S. Administration went further to formulate a conception of a new single South and Central Asia region held together by Afghanistan.

The formula now in use in America's official parlance—South and Central Asia—brings to mind another formula—Central Asia and the Caucasus. Both were born for very similar reasons. Central Asia and the Caucasus, however, are relatively similar in many respects (population strength, GDP, etc.), therefore a conceptual union will create a more or less equal alliance. Central Asia, with its total population and aggregate GDP of 60 million and \$0.23 trillion, respectively, does not come anywhere close to South Asia: India alone has a population of 1 billion and GDP of \$3.6 trillion.²⁶ This means that the two regions could not merge—South Asia would engulf Central Asia.

I called the U.S. Administration's project Greater South Asia because of this conceptual distinction and related circumstances to distinguish it from the Institute's Greater Central Asia project.

It seems that the conceptual changes appeared for several reasons: the Greater South Asia conception looked much more attractive to potential supporters in America and outside it than the Greater Central Asia project. At the same time, the Administration is still exploiting the Institute's key idea of a link between Central Asia and Afghanistan at the local level, in Central Asia.

As for the purely "technical" changes, it can be surmised that, when shaping its own approach, the Administration took into account the present balance of forces in the region, Russia's and China's stronger positions in particular: the two countries are obviously able to disrupt the project altogether. As a result, the more "covert" and less confrontational approach, without setting up a regional organization, was selected.

Finally, a few words about the greatest weakness of the Greater South Asia project—I have in mind Afghanistan as the key, and unstable, link. The project might either fail or not take off at all because of possible attacks on the infrastructure—pipelines and power lines, bridges and highways. This was how Alexander Kniazev, a political scientist from Kyrgyzstan, justified his criticism of GCAP in his article, "Situatsia v Afganistane i proekt Bol'shoy Tsentral'noy Azii" (The Situation in Afghanistan and the Greater Central Asia Project).²⁷

Importance of Central Asia for the United States

America is a key world power resolved to remain one, as well as the world's main consumer and importer of energy resources. The Central Asian countries can be described as smaller states, some of

²⁵ See: S.F. Starr, "A 'Greater Central Asia Partnership' for Afghanistan and Its Neighbors," p. 13.

²⁶ See: "The World Factbook," publication of the U.S. Central Intelligence Agency, available at [<http://www.cia.gov/cia/publications/factbook/>], 3 June, 2006.

²⁷ See: A. Kniazev, "Situatsia v Afganistane i proekt Bol'shoy Tsentral'noy Azii," in: *Novaia bol'shaia igra v Bol'shoy Tsentral'noy Azii*, ed. by N. Omarov, MISI, Bishkek, 2005.

which produce and export oil and gas. It seems that this provides an ample explanation of America's approach to Central Asia.

The local resources have been and remain the key issue for the United States. This is not all: the region is important in America's strategy aimed at preserving its status as the world's only superpower. It should be said, however, that in the past Central Asia remained on the periphery of American interests, attention to which was gradually increasing.

The terrorist acts of 9/11 and the subsequent U.S. military operation in Afghanistan irrevocably changed the situation. Central Asia became very important to the United States: new priorities were added to the old ones. At first, America needed local support for its military campaign in Afghanistan; later, for its military presence in Afghanistan and its efforts to stabilize the situation there.

The United States is the leading industrial power and the main oil importer. Since it accounts for a quarter of the world's oil consumption and imports about 60 percent of oil, the American government must ensure uninterrupted supply of adequate amounts of oil at acceptable prices. Significantly, annual oil consumption is 7.5 billion barrels of oil,²⁸ while in 2004 America's proved resources were 21.3 billion barrels.²⁹

Since different sources offer different estimates of the Caspian oil reserves, the Energy Information Administration of the U.S. Department of Energy offers its own estimation of between 17 and 44 billion barrels.³⁰ At worst, the proved Caspian reserves are equal to America's proved reserves, at best, they are twice as much.

America's interests in the region were limited to its energy sources; this is confirmed by the fact that Central Asia was mentioned only once in the National Security Strategy of the United States of America published in 2002: "We will strengthen our own energy security and the shared prosperity of the global economy by working with our allies, trading partners, and energy producers to expand the sources and types of global energy supplied, especially in the Western Hemisphere, Africa, Central Asia, and the Caspian region,"³¹ says the document. The National Energy Policy published in May 2001 contains a similar formula.³²

At the same time, America's interest in Central Asia was supported by geopolitical as well as geo-economic considerations: its geographic location in the heart of Eurasia is extremely important for the United States, which positions itself as the global hegemon. Halford Mackinder, one of the classics of geopolitics, described Central Asia as part of the Heartland and a key to global domination: Who rules the Heartland commands the World-Island (Eurasia and Africa), and who rules the World-Island commands the World.³³

Even if we disagree with the Heartland theory, we should recognize that Central Asia is a strategic region from which two great powers (Russia and China), the interests of which often clash with American interests, can be influenced. The region borders on anti-American Iran, which President George W. Bush described as one of the "axis of evil" countries and which heads the list of potential targets of Washington's military strikes.

²⁸ Calculated on the basis of *World Oil Balance, 2001-2005*, published by the Energy Information Administration, U.S. Department of Energy, latest renovation in June 2006, available at [<http://www.eia.doe.gov/emeu/ipsr/t21.xls>], 3 June, 2006.

²⁹ *Crude Oil Proved Reserves, Reserve Changes, and Production*, published by the Energy Information Administration, U.S. Department of Energy, latest renovation on 15 March, 2006, available at [http://tonto.eia.doe.gov/dnav/pet/pet_crd_pres_dcu_NUS_a.htm], 3 June, 2006.

³⁰ *Country Analysis Briefing: Caspian Sea*, published by the Energy Information Department of the U.S. Department of Energy, latest renovation in September 2005, available at [<http://www.eia.doe.gov/emeu/cabs/Caspian/Full.html>], 3 June, 2006.

³¹ See: The National Security Strategy of the United States of America, September 2002, p. 19.

³² National Energy Policy, May 2001, pp. 8-13.

³³ Quoted from: N.A. Nartov, *Geopolitika*, Moscow, 1999, p. 55.

It seems that U.S. policies should be analyzed in this context: on the one hand, America promotes the local countries' "independence" (interpreted as independence from Russia, China, and Iran), while on the other, it encourages stronger cooperation with the United States and the West.

The events of 9/11 and America's military operation in Afghanistan later in 2001 changed Washington's priorities in Central Asia and boosted the region's importance. The energy fuel and "independence" issues preserved their priority; several more issues connected with the geographic location of the region that borders on Afghanistan gained more importance.

At the beginning of its intervention in Afghanistan America needed military bases outside the country to be used to deliver blows at the Taliban and ensure sustainable military deliveries. The talks with Uzbekistan provided the United States with access to the former Soviet military base of Karshi-Khanabad; the Americans also deployed their forces at the civilian airport of Manas in Kyrgyzstan. The leaders of both countries expected that Washington would support their regimes and ensure a flow of foreign investments.

The military campaign that defeated the Taliban made the military bases in Central Asia less important for the United States: now it could have set up similar structures directly on Afghan territory. The situation in Afghanistan, however, was far from ideal, which meant that the Uzbek and Kyrgyz bases were still needed as safer locations. The United States never publicized another aspect, of which it as well as Russia and China were well aware: the bases were important geopolitically in the context of the region and its neighbors.

America, which at first insisted that its troops were deployed in Central Asia temporarily, began talking about its longer military presence there.³⁴ Russia and China were not overjoyed: from their perspective, permanent American bases in Central Asia looked like a threat to their influence in the region.³⁵ In mid-2005, Russia and China responded to the American initiative in the way discussed below.

While the 9/11 events provided the United States with a unique opportunity to penetrate into the geopolitical heart of Eurasia, the gradually restored normalcy in Afghanistan was expected to confirm America's strength and efficiency. In this way, Washington would acquire a foothold to control the region and potentially influence Russia, China, and Iran. Failure in Afghanistan, on the other hand, would deprive America not only of part of its regional influence, but also of its image and worldwide influence. Central Asia obviously has an important role to play in both scenarios.

The U.S.'s New Regional Approach: Reasons and Aims

There are two main reasons for America's new regional approach: the changes on the American domestic scene triggered by the Afghan and Iraqi developments and the geopolitical changes in Central Asia that undermined the U.S.'s position there. This was why the U.S. Administration armed itself with the Greater South Asia Project rooted, to a great extent, in the GCAP devised by the Central Asia-Caucasus Institute.

As a response to the domestic and foreign challenges, the project was intended to help the U.S. achieve certain strategic aims in Afghanistan and acquire greater weight in the region (and, indirectly, throughout the world). These strategic breakthroughs called for several tactical moves, such

³⁴ See: S. Blank, "U.S. Strategic Priorities Shifting in Central Asia," *Eurasianet*, 25 March, 2005, available at [<http://www.eurasianet.org/departments/insight/articles/eav032504a.shtml>], 3 June, 2006.

³⁵ See: *Ibidem*.

as stirring up a greater interest in Afghanistan inside and outside the U.S. (in Central Asia and the world community) and assisting Afghanistan's more vigorous economic development, as well as putting up active opposition to Russia's and China's regional presence with the help of Pakistan and India.

In America there is mounting opposition in the public and among the elite to the country's military involvement in Iraq and Afghanistan: in his 2006 State of the Union Address, President George W. Bush mentioned the world "isolationism"³⁶ three times in a critical context and emphasized that "retreat"³⁷ was impossible. The developments in Afghanistan affected the American ruling elite even though the media and the public were engrossed in what was going on in Iraq.³⁸ After a while it became clear that stability in Afghanistan required much wider military presence there fraught with greater fatalities and financial losses. In 2004-2005, its military presence in Afghanistan cost the United States \$10 billion; nearly \$2.6 billion more was spent on non-military aid.³⁹

The U.S. budget deficit of \$445 billion in 2004⁴⁰ forced Congress to start talking about a possible reduction in spending on Afghanistan. In his article, Frederick Starr wrote: "Members of Congress are pushing to reduce U.S. assistance to Afghanistan, arguing that the principal U.S. objective there—the destruction of the Taliban—has been achieved."⁴¹

In Central Asia, meanwhile, the situation was developing contrary to U.S. interests; a revolutionary wave arose in Georgia, engulfed Ukraine, and reached Kyrgyzstan. In March 2005, the so-called Tulip Revolution shook the country. The revolution was associated with the United States because of the "democratization" policy supported by George W. Bush's Administration. Apprehensive of similar developments at home, the local authoritarian leaders turned away from America toward Russia and China as less dangerous partners.

The events of May 2005 in Andijan (Uzbekistan) not only caused numerous losses, but also forced the country's leaders to change their foreign policy course: under domestic and foreign pressure Washington criticized its key regional ally. The local leaders learned their lesson.

On 5 July, 2005, in Astana, the capital of Kazakhstan, the SCO heads of state adopted a declaration that reflected the changed position of the local states, as well as of Russia and China regarding U.S. policies. The document said that the members of the counterterrorist coalition (the United States in particular) should set a deadline⁴² for its military presence in the region, which meant that America should remove its troops from Uzbekistan and Kyrgyzstan. The SCO members also stated that a rational and just world order should be maintained without claims to monopoly and domination on the international scene.⁴³

Significantly, Chairman Hu Jintao paid a four-day visit to Moscow on the very eve of the SCO summit (30 June-3 July), where the two countries signed, in particular, a Declaration on the World Order in the 21st Century, which stated that none of the countries should claim domination when it came to international issues.⁴⁴

³⁶ See: State of the Union Address by the President, 31 January, 2006, available at [<http://www.whitehouse.gov/state-of-the-union/2006>], 3 June, 2006.

³⁷ Ibidem.

³⁸ See: P. Rogers, "Iraq, Afghanistan and US Public Opinion," *International Security Monthly Briefing*, June 2005, p. 3.

³⁹ See: S.F. Starr, "A Partnership for Central Asia."

⁴⁰ See: *Budget of the U.S. Government. Fiscal Year 2005*, Mid-Session Review published by the White House Department for Budget and Management, p. 1, available at [<http://www.whitehouse.gov/omb/budget/fy2005/05msr.pdf>], 3 June, 2006.

⁴¹ S.F. Starr, "A Partnership for Central Asia."

⁴² The member states issued a statement on the results of the SCO summit, Xinhua, 5 July, 2005.

⁴³ See: Ibidem.

⁴⁴ See: "V Moskve proshli peregovory prezidenta Rossii i predsedatelja KNR," Radio Svoboda, 1 July, 2005, available at [<http://www.svoboda.ru/news.aspx?item=117891>], 3 June, 2006.

Soon after the Astana summit, Uzbekistan, supported by Russia and China in connection with the Andijan events, informed the United States that it was withdrawing from the treaty under which the U.S. had use of the Karshi-Khanabad base. This deprived the White House of one of its two military bases in Central Asia, the more important of the two from the point of view of America's operations in Afghanistan.

As a result, Russia and China boosted their influence in the region, while America lost some of its. This came as an unpleasant surprise, which weakened America in Afghanistan as well: further stabilization in this country largely depended on the U.S.'s continued cooperation with the advantageously located Central Asian countries.

As Pál Dunay and Zdzisław Lachowski put it, "any new administration's agenda would be dominated by the need to stabilize Afghanistan and Iraq."⁴⁵ The country needed stabilization once the active military phase was completed. At the same time, this meant that the political and civil institutions had to be built from scratch: the country was slowly recovering after nearly 30 years of civil war.

This fully applies to the economy, an important stability factor. The economic situation likewise suffered because of the civil war. Today, locally produced narcotics supply the lion's share of the country's income and constitute the most important economic component; they are responsible for the "shadow market" and an extremely high corruption level. The local feudal lords buy their independence from Kabul by trading in narcotics; drug money supports the Taliban fighters who stand opposed to the government.

The U.S.-led coalition cannot stage a head-on attack against this evil: this will inevitably stir up a lot of opposition among the ordinary people surviving on opium poppy money, as well as among the local leaders who profit from poppy processing and illegal trade in drugs. The bureaucrats and the power-related structures, which have already grown accustomed to bribes from the drug barons, would not be overjoyed either. As a result, activation of the anti-drug struggle, meant to promote Afghanistan's development, is fraught with immediate destabilization in this country.

Alternatives to poppy growing and drug production should be sought and found in the economic sphere: in agriculture and other sectors. Unfortunately, even before the civil war, the country had neither a developed infrastructure nor industry; after the civil war its barely developed agricultural sector remained the only functioning sphere of the economy. The country has no important raw material reserves that might replenish the budget to create an alternative to the drug market.

Today, its geographic location between South and Central Asia is Afghanistan's only advantage. The Greater South Asia project is expected to tap this advantage and promote the country's economy by developing its infrastructure. As a link between Central and South Asia, Afghanistan is expected to attract the world's attention.

On the one hand, this will help Washington enlist the support of India and Pakistan, two key South Asian countries, which, if interested enough, could extend considerable assistance to Afghanistan. On the other hand, the project might interest other developed countries, which means the increase in material and technical assistance and the support coming from the international financial institutions (the World Bank, EBRD, the Asian Bank of Development, etc.) when the time comes to fund the projects designed to develop the Greater South Asia region.

The projects designed to develop the region will contribute to Afghanistan's economic growth and, consequently, stabilization. Over time, it will be able to look after its security and support its state structures itself, which will lighten America's financial burden and allow it to reduce its military presence in the country while preserving its position.

⁴⁵ P. Dunay, Z. Lachowski, "Euro-Atlantic Security and Institutions," *SIPRI Yearbook 2005*, Oxford University Press, New York, 2005, p. 52.

It should be said that the Greater South Asia project is expected to create a Southern energy and transportation corridor that will help the landlocked Central Asian countries reach the world energy and trade markets. In this respect, the project is reminiscent of the American Silk Road project the Congress initiated in 1999 to create the Western energy and transportation corridor across the Caucasus designed to link Central Asia and the Caucasus with Turkey and Europe.

The energy part of the Western corridor has been implemented as the Baku-Tbilisi-Ceyhan oil pipeline and is being continued as the Baku-Tbilisi-Erzurum gas pipeline with America's active lobbying. In 2001, the National Energy Policy mentioned above recommended that the U.S. president support the Baku-Tbilisi-Ceyhan project.⁴⁶ Even before the United States adopted the Silk Road strategy, Europe was working on the transportation aspects of the Western corridor through TRACECA; this project is still being carried out.

The Silk Road project designed to strengthen the ties between Central Asia and the Caucasus with Turkey and Europe, two of Washington's friends, decreases the dependence of Central Asia and the Caucasus on America's rivals (Russia, China, and Iran). In this sense, the Silk Road is not merely a geo-economic, but also a geopolitical project. The Greater South Asia project is expected to weaken the influence of Russia, China, and Iran in Central Asia and tie it to America's allies (Pakistan and India).

Washington obviously wants to fortify its position in Greater South Asia by relying on Pakistan and India and undermining the position of Russia, China, and Iran. The project is an element of America's strategy designed to preserve its global domination.

C o n c l u s i o n

Late in 2005, the United States formulated a new regional approach to Central and South Asia, the principles of which have been repeatedly outlined by the U.S. State Department and personally by Condoleezza Rice. It was also mentioned in the White House's press release that summarized President George W. Bush's visit to Pakistan. Finally, Washington's new regional conception was reflected in the U.S. National Security Strategy published in March 2006. The U.S. State Department was restructured accordingly, while a new project with a budget of about \$1 million was initiated.

Earlier, the United States regarded Central Asia as a separate region tied to the CIS: today Central Asia and South Asia are seen as a single region America calls Greater South Asia. In this context, Afghanistan acquired the role of a bridge between Central and South Asia and a transit territory crossed by transportation and energy corridors expected to create a new single region—Greater South Asia.

The new regional plan is based on the Greater Central Asia conception formulated by the Central Asia-Caucasus Institute at the Johns Hopkins University published in mid-2005. The plan hinged on transportation and energy corridors created to tie Central and South Asia together. The Institute spoke about the Greater Central Asia conception applied to five Central Asian countries and Afghanistan, while the U.S. Administration plans to join Central and South Asia together.

The new regional approach was suggested by the U.S. domestic and external factors. It seems that the fact that the United States lost much of its influence in the region following the revolution in Kyrgyzstan and the Andijan events in Uzbekistan urged the American leaders to seek a new regional approach. Inside the country, the conception was prompted by the growing dissatisfaction with the

⁴⁶ See: National Energy Policy, May 2001, pp. 8-13.

results in Iraq and Afghanistan, the loss of life, and America's heavy financial burden caused by its involvement there.

The regional project has been devised as an answer to the challenges described above, it is expected to stir up an interest in Afghanistan and rebuff the regional ambitions of Russia and China. At the same time, it is intended to attract the world community's favorable attention to the greatest extent possible and help to achieve security and economic progress in Afghanistan, a U.S. protectorate. The project is obviously intended to receive more support at three levels: inside the country, in the Greater South Asia region, and in the international community. This will obviously boost Washington's regional and global position.

GUAM AND THE SMALLER GAME IN THE POST-SOVIET EXPANSE

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“Western Expansion” or a “New Democratization Wave in Eastern Europe”?

The recent political transformations in the post-Soviet expanse are often described as a “Big Game,” meaning a confrontation among the global actors: America, the EU, and Russia.

We are used to hearing about how Russia is being squeezed out of its traditional and “natural” sphere of influence—the former Soviet territory—by the West with the help of pro-Western political groups in the Soviet successor states. It has become commonplace to assert that political freedom and democracy, Western values, and the Western civilizational model have spread across the post-Soviet expanse and that they are opposed by Eastern authoritarianism and imperialism. Politically, these two approaches are mutually exclusive; but if assessed in absolute magnitude, disregarding their ideological and emotional aspects, we find that they stem from the same logical basis.

I mean that the logic of “Western expansion” and “democratization” describes the Soviet successor states and post-Soviet societies as targets of influence of the largest world actors, rather than entities of international politics with willpower, interests, and strategies of their own. In the event these countries are allowed to retain the “right to remain entities,” their willpower, interests, and strategies

are described in an extremely simplified way—as the European choice of ideological conceptions. Both the Russian and Western expert communities tend to perceive only the enlarged view of the post-Soviet expanse and more likely than not are unable to discern and analyze the details. In fact, the Big Game paradigm draws us away from a more detailed discussion of the newly independent states' foreign policies.

The geopolitical value of the post-Soviet expanse is immense—it would be wrong to deny that the U.S. and other leading Western countries are not interested in it. There is much steadily mounting interest. It is likewise obvious that the Soviet successor states are demonstrating a growing pro-Western foreign policy orientation. In the Southern Caucasus, it was recently boosted by the Baku-Tbilisi-Ceyhan oil pipeline. It is hardly wise to deny that these trends have become the central ones across the former Soviet territory.

Still, any international system is multileveled, which is especially true of the post-Soviet expanse: there the leading world powers and governments are not the only factors of influence. Self-proclaimed structures (Abkhazia, Nagorno-Karabakh, the Trans-Dniester Region, and South Ossetia) play their roles as well, as do certain political and economic clans operating in the local states. Here is an example: there is the opinion that in the summer of 2004 Georgia tried to close the unrecognized republic of South Ossetia for transit traffic partly in the commercial interests of the Burjanadze family in order to remove South Ossetian competition from the bread trade. The same can be said of the active involvement of Governor of the Krasnodar Territory Alexander Tkachev in the political game around the presidential election in the non-recognized republic of Abkhazia in the fall of 2004. It should be said that the weak state institutions in many of the post-Soviet states (in the Southern Caucasus and Central Asia especially) and the obvious trend toward using informal mechanisms to govern the state strengthen clans' influence on domestic and foreign policies. Finally, public organizations may also play an important role in post-Soviet foreign policies. A Ukrainian public association, Pora, which displayed excessive interest in the parliamentary election in Azerbaijan in November 2005, thus endangering relations between Kiev and Baku, is a case in point.

The multilevel system of post-Soviet international relations does not rule out other more prominent and important trends within the system, which might be described as the Big Game, but the lower levels of the post-Soviet international political system should also be studied. To achieve the required depth of analysis of the post-Soviet international relations, the smaller game should become an object of comprehensive studies.

This cannot be done within the scope of one article. It is possible, however, to outline here the "smaller game" paradigm within which the local countries stop being merely objects of international politics, but act as its subjects. This is best illustrated by the attempts to revive GUAM undertaken by its members in 2005-2006. The way GUAM is perceived is a classical example of thinking within the Big Game paradigm ("Russia's geopolitical environment," etc.). At the same time, in the last twelve to eighteen months the international political situation within this structure has demonstrated dynamism and provided enough evidence to compare the interests, motivations, and strategies of its members.

Lonely Georgia and Ambitious Ukraine

GUAM, which united Georgia, Ukraine, Azerbaijan and Moldova into an informal alliance, was set up back in October 1997. In April 1999, they were joined by Uzbekistan, at that time regarded as the most loyal American ally in Central Asia. GUAM caused a lot of concern in Russia where many

of the political observers started talking about a West-inspired “sanitary belt.” The concern gradually deepened when it became obvious that the West, the United States in particular, was obviously supporting the newly established bloc. After a while, as Moscow and the West moved away from the acute political conflict caused by the Kosovo issue toward the anti-terrorist alliance of the fall of 2001, Russia’s concerns dissipated. Meanwhile, the newly established bloc stagnated or even underwent degradation. It failed to achieve practical results, while the statuses of those who represented the member states at the GUUAM meetings were steadily declining. In 2002, Uzbekistan “suspended” its membership. It is unlikely there was a connection between better relations between Russia and the West and GUUAM’s stagnation, yet there is the feeling that the elites of the newly independent states were using similar projects as a means “to utilize” the energy of political confrontation between Moscow and its Euro-Atlantic partners.

In the early half of 2005, Georgia, Ukraine, and Moldova tried to revive the nearly dead bloc. Each of them had reasons of its own for doing this.

Late in 2004, Georgia and its president, Mikhail Saakashvili, became aware that isolation within the CIS had grown too acute. In the wake of the Rose Revolution, cooperation between Moscow and Tbilisi looked probable. The then Russian Foreign Minister Igor Ivanov played an important role in Eduard Shevardnadze’s resignation; the new president paid his first foreign visit to Moscow, where the sides managed to reach a compromise on an issue that Moscow (and especially its mayor) found very painful—the change of power in Ajaria in May 2004. Several months later, however, in July, when the Georgian leaders tried to restore control over South Ossetia, Moscow did not, and could not, respond positively. The Russian leaders did their best to help the Georgians avoid embarrassment, but relations between the two countries were spoiled. The Georgian rhetoric, in which Moscow discerned anti-Russian overtones, did nothing to improve the situation.

The difference was keenly felt between the presidential style of Mikhail Saakashvili, a young and brilliant pro-Western politician who led a velvet coup, and most of the other CIS leaders who belonged to the older political generation that emulated the ways of the Soviet nomenklatura.

By the summer of 2004, the “defensive” trends in the CIS, graphically set forth in the Statement of the CIS Members on the State of Affairs in the OSCE published on 3 July, 2004, had become obvious. The CIS members accused the OSCE of double standards, disregard of the principle of non-interference in the domestic affairs of states, and excessive attention to human rights and humanitarian issues. In fact, the CIS members voiced their displeasure with the practice of OSCE assessment of elections as democratic or undemocratic.¹ In view of the important role this assessment played in the Rose Revolution (and later in the Orange Revolution), Mikhail Saakashvili felt like the odd man out in the CIS. No wonder he tried to balance this isolation with contacts with the “Orange” opposition in Ukraine. In fact, both sides needed them: the Ukrainian opposition placed its stakes on the presidential election of the fall of 2004 in the hope of carrying out the scenario successfully tested in Tbilisi. Ukraine’s Pora and Georgia’s Kmara organizations, which used the same “textbooks,” easily found a common language.

As leader of the Ukrainian opposition, Viktor Iushchenko attended Mikhail Saakashvili’s inauguration in January 2004.² A year later it was the Georgian president’s turn to attend Viktor Iushchenko’s inauguration.³ The contacts between Tbilisi and the Orange leaders became inter-state.

¹ See: [<http://www.cis.minsk.by/main.aspx?uid=2096>]. Mikhail Saakashvili abstained from voting and pointed out: “Georgia believes that the OSCE should be improved and its institutions reformed.” Turkmenistan abstained because of its traditional neutrality, while Azerbaijan, unwilling to quarrel with an influential European institution, abstained as well: the presidential election, highly important for legitimizing Ilham Aliiev’s regime, was less than twelve months off. Ukraine, which normally did not coordinate its foreign policies with the CIS, signed the document.

² Interfax, 23 January, 2004.

³ See: [<http://www.newsru.com/world/02jan2005/uty.html>], 27 June, 2006.

They were strengthened thanks to the Carpathian Declaration both presidents signed early in January 2005, in which they said that their coming to power had started a new wave of liberation in Europe, thanks to which “freedom and democracy will finally triumph across the European continent.”⁴

At that stage, Georgia needed these contacts to overcome isolation within the CIS, while Ukraine was aiming much higher. The Orange victory created an absolutely new context in the post-Soviet expanse. Based on the example of the Rose Revolution, this method of power change in the second largest post-Soviet state spoke of a new budding trend. The liberal political pro-Western groups were watching the “success story” and learning from it. The new Ukrainian leaders and their supporters inside the country were euphoric: “In three years’ time, we will reach the living standards of the Czech Republic” was the most typical statement in February-March 2005. For the first time in its history, Ukraine could think about challenging Russia as a center of attraction for the CIS and the entire post-Soviet expanse. The country seemingly had everything: a high (up to 12 percent) economic growth rate achieved by the Yanukovich cabinet and liberal “Orange” slogans enthusiastically hailed across post-Soviet territory, while the West was prepared to greet the new foreign policy course. An alliance with Tbilisi was seen by Kiev as the first step toward Ukraine’s leadership across the post-Soviet expanse.

Compromises and Consolidation

GUAM would have remained half dead had not Moldova badly needed it. President Voronin was worried, with good reason too, that his country might fall victim to the next “color revolution,” the script of which had been tested in Georgia and Ukraine. To save himself and his power, he embraced the slogans of the liberal and pro-Western opposition and drew close to Tbilisi and even closer to Kiev. The maneuvers were simplified by the fact that earlier, late in 2003, Kishinev, which had heretofore sympathized with Moscow, spoiled its relations with Russia by refusing to sign the Kozak memorandum, on which the sides had earlier agreed,⁵ which contained Russia’s plan of conflict settlement in the Trans-Dniester Region.⁶ From that moment on there was no danger of being dismissed as Moscow’s puppet unwelcome in the West.

Georgia and Ukraine appreciated the move—the bilateral relations of the two “color revolution” countries could develop into a regional bloc. Voronin’s affiliation with the Communist party and his friendship with Moscow prior to the Kozak memorandum were forgotten.

Between late February and early March 2005, the three leaders held several bilateral meetings; Azerbaijan, the fourth member, did not demonstrate much activity—it preferred to follow the developments. On the one hand, Baku was aware of the dangers of distancing itself from Georgia and Ukraine in view of the triumphal Orange political model in the CIS on the eve of the parliamentary election scheduled for November 2005. The Azeri president felt much safer in the same boat as the post-Soviet regimes, which had already demonstrated their liberal pro-Western sentiments. The November election, however, demonstrated that GUAM membership was no guarantee against “Orange imports.” On the other hand, Azerbaijan was fully aware that GUAM could not be revived without it: the bloc’s economic agenda inevitably raised the issue of alterna-

⁴ [<http://president.gov.ge/?l=E&m=5&sm=2&id=29>], 27 June, 2006.

⁵ See: [<http://www.fin.org.ua/newws.php?i=282732>], 27 June, 2006.

⁶ RIA “Novosti,” 25 November, 2003.

tive sources of fuel and alternative transportation routes, leaving Russia out in the cold. Azerbaijan was the only oil-and-gas-rich GUAM member and it alone could supply the bloc with an economic foundation, even if virtual: the members failed to translate their discussion of alternative fuel sources into practice.

At the same time, certain steps taken by GUAM's "reanimators" undermined some of the bloc's ideological principles as a union of countries that "opted for freedom." In an effort to add weight to the structure, they tried to persuade Islam Karimov, the most authoritarian of the CIS rulers, to attend the summit. Much was done to prevail over the Uzbek president—Premier of Georgia Zurab Nogaideli went to Tashkent to persuade Karimov. His efforts failed—Uzbekistan refused to attend the summit and some time later withdrew from the bloc altogether—Nogaideli had to cut short his two-day mission.⁷

Kyrgyzstan, which refused to join the bloc, delivered another blow to GUAM's ideological foundation: acting head of state of Kyrgyzstan Kurmanbek Bakiev (brought to power in Askar Akaev's place by the coup in Bishkek carried out according to the Kiev and Tbilisi scenario) refused to revive GUAM, thus undermining the bloc's "revolutionary message." Not only that: Ukraine and Georgia, which negotiated at a very high level (they sent their foreign ministers—Salome Zurbishvili and Boris Tarasiuk—to Bishkek), lost some of their image.⁸

All the failures notwithstanding, the summit held on 22 April, 2005 in Kishinev was a success: the bloc that for several years had shown practically no signs of life suddenly produced a lot of information. The participants managed to outline more or less clear objectives—something they had failed to do earlier: promoting democracy across the post-Soviet expanse and fighting separatism.

It should be said that promoting democracy was less carefully outlined than fighting separatism. When talking about democracy, the summit vehemently criticized Belarus President Lukashenko and his regime; the final document, however, made essentially no mention of this.

Fighting separatism was the bond that consolidated the rather different bloc members. Three out of four countries that met in Kishinev—Georgia, Azerbaijan and Moldova—had trouble with break-away territories. It can even be said that discussion of the future of the still frozen conflicts and unrecognized states in the post-Soviet territory, which began in 2004, helped revive GUAM. Typically enough, as distinct from many of the international legal documents dealing with post-Soviet conflict settlement, the Kishinev Declaration made no mention of the right of nations to self-determination and employed harsh terms when talking about possible settlement in the form of "reintegration of the uncontrolled territories into the state of which they are parts."⁹

This was what Tbilisi, Baku, and Kishinev wanted. During the summit, Kiev concentrated, contrary to expectations, not so much on promoting democracy, as on fighting separatism and the future of the Trans-Dniester conflict in particular.

Speaking in Kishinev, Viktor Iushchenko said: "Ukraine is resolved to push forward at least some of these problems (the "frozen" conflicts.—*N.S.*) I have in mind the Trans-Dniester problem."¹⁰ He offered his own plan of settlement that hinged on democratic elections in the Trans-Dniester Moldavian Republic, mentioned in positive terms in the Kishinev Declaration. Kiev was obviously not so much concerned with defeating separatism as with snatching the role of "geopolitical sponsor" of the unrecognized republic from Moscow. (Russia's influence on the unrecognized states in the post-Soviet territory is justly regarded as one of its foreign policy tools). This produced a great impression on the sides involved in the Trans-Dniester settlement: the memories of Russia's failure were still fresh.

⁷ RIA "Novosti," 19 April, 2005.

⁸ Interfax, 31 March, 2005.

⁹ See: [<http://www.guam.org.ua/181.449.0.0.1.0.phtml>], 27 June, 2006.

¹⁰ RIA "Novosti," 22 April, 2005.

The Ukrainian initiative confirmed that its leaders considered themselves strong enough to challenge Russia, through GUAM, in the post-Soviet expanse. In March 2006, Ukraine blocked off the self-proclaimed republic—another step in the same direction.¹¹

On the whole, all the “sharp angles” were successfully avoided: there was no discussion of the democratic or undemocratic nature of the regimes represented in Kishinev; the participants managed to agree on an agenda that suited everyone. This revived GUAM and helped it to develop into the foundation of the Organization for Democracy and Economic Development twelve months later. After a while, however, the differences between the countries involved and their interests and strategies became more obvious.

The Dialectics of Oil and Democracy

The Georgian leaders used the very-much-needed foreign policy achievements as domestic tools. This first became obvious on the eve of the Kishinev summit when President Saakashvili was first confronted with large-scale opposition actions. Leader of the opposition Labor Party of Georgia Shalva Natelashvili promised a rally that would demand Saakashvili’s resignation in mid-April 2005, the day President George W. Bush was expected in Tbilisi. The rally did take place, but passed unnoticed for obvious reasons.¹² In April, the rightist opposition launched itself into action: the Georgian Conservative Party headed by Koba Davitashvili announced that it intended to collect signatures for President Saakashvili’s resignation.¹³ Since then, pressure on the president has been mounting. The Georgian leaders’ economic policies produced certain results (in 2005, Georgia’s GDP increased by 9.3 percent).¹⁴ The effect, however, is much lower than the popular hopes pinned on the Rose Revolution and its leaders. Recently, Georgia’s permanent economic troubles were augmented by the restrictions Russia imposed on Georgian imported commodities. The promised restored control over Abkhazia and South Ossetia is nowhere in sight. According to certain assessments, the rate of Saakashvili’s United National Movement at the upcoming local elections is about 30 percent.¹⁵ This is much lower than the 66 percent the party that joined with the “democrats” of Nino Burjanadze gained at the parliamentary election in March 2004.¹⁶ This is forcing the Georgian president to rely on foreign policy arguments to bolster his domestic position.

His main argument comes from the West, which looks at Georgia as the leader of democracy in the CIS and the “motherland of the color revolutions.” This logic allows Mikhail Saakashvili to strengthen his position across the former Soviet Union with every new event. It can be said that Georgia’s interest in GUAM was suggested by these considerations as well: Georgia, the “most democratic” country “badly hit by separatism” (there are two “frozen” conflicts on its territory),

¹¹ *Ekspert*, a Russian business weekly, wrote the following in this respect: “The ties between Western Ukraine, the pillar of the present Ukrainian rulers, and the Trans-Dniester Region are much closer than one might imagine. During the war in the area, Ukrainian volunteers, some of them from the western regions, fought side by side with Russian volunteers. During the years of the unrecognized republic’s semi-legal existence, West Ukrainian bureaucrats and businessmen established close contacts with the local elite. This was not limited to the need to maintain transit traffic to Russia and back, but was also promoted by fairly close personal ties and business interests. All types of contacts with the Trans-Dniester Region supply many Ukrainian politicians, Orange politicians, some of them from the close presidential circle, with money” (A. Protopopov, “Seraia zona,” *Ekspert*, No. 10 (504), 13 March, 2006).

¹² Interfax, 10 May, 2005.

¹³ Interfax, 14 April, 2005.

¹⁴ Interfax, 22 March, 2006.

¹⁵ See: [<http://www.regnum.ru/news/651022.html>].

¹⁶ PRIME-TASS, 19 April, 2004.

has logically assumed the leading role in the alliance, which focuses on promoting democracy and fighting separatism. Its real economic and geopolitical status has nothing to do with this. No wonder that since after the Kishinev summit Georgia actively developed contacts with the Belorussian opposition to keep alive the democracy issue across the post-Soviet expanse, which had wilted somewhat at the GUAM summit.

At the same time, the democracy issue cannot develop within GUAM itself. First, the alliance obviously needs more resources to promote democracy, or rather its Georgian-Ukrainian version, elsewhere. Second, and most important, the preparations for the summit demonstrated that the task of creating a regional alliance as an alternative to Moscow's projects contradicts, to a great extent, rigid orientation toward pro-Western and liberal political ideals, which are not approved by many of the post-Soviet regimes.

Significantly, as GUAM develops from an informal alliance into an international structure, the democracy issue loses its pertinence. Late in May 2006, the final document of the Kiev summit spoke of democratization in the most general terms. This provided an unwelcome contrast to the clear and highly specific statements about cooperation in "frozen" conflict settlement and the energy sphere.¹⁷ Georgia and Ukraine are using another organization—the Democratic Choice Community—the two countries set up in August 2005 to present their "democratic" agenda.¹⁸

Azerbaijan has not introduced any dramatic changes into its GUAM strategy: it follows the tactics it used on the eve of the Kishinev summit and prefers to observe the developments rather than actively shape the alliance's policies. At the same time, some of the GUAM partners gave the Azeri president certain reason to believe that drawing too close to the alliance might destabilize his regime.

I have in mind two episodes of the parliamentary election held last fall, which official Baku found very painful. One of them related to the future of Rasul Guliev, the former speaker, who was considered one of the most influential opponents of the ruling regime. Accused of embezzlement at home, he is forced to live in the United States. In mid-October 2005, disregarding the threat of arrest, he decided to return home, but his plane did not reach Baku. It landed, instead, in Simferopol (Ukraine) where Guliev was detained on Baku's request and released several days later. Baku responded in sharp and negative terms. The statement President Aliev issued read: "The fact that a member of the international mafia, Rasul Guliev, well-known in our country as a thief accused of embezzling over \$117 million of state funds and on the international wanted list, was released after being detained in Ukraine amazed the Azerbaijanian public and caused regret."¹⁹ He added that this would not help cooperation within GUAM. The other episode was caused by the cooperation between the Azeri opposition and the Ukrainian Pora organization, which played an important role in the Orange Revolution. In October 2005, Musavat, an opposition party belonging to the Azadlyg opposition bloc, signed an agreement on mutual understanding and cooperation with the Ukrainian revolutionary structure.²⁰ This caused a lot of concern in the Azeri government, which did not want a repeat of the Georgian or Ukrainian events during or after the parliamentary election. A Pora member who came to Baku was arrested and deported.²¹ Kiev apologized to Baku and had to explain that this organization did not represent Ukraine's foreign policy.²²

Baku is fully aware of the fact that Georgia, Ukraine, and Moldova badly need its presence in GUAM. The twelve months that separated the two GUAM summits were filled with problems the three

¹⁷ See: [<http://www.guam.org.ua/181.611.0.0.1.0.phtml>].

¹⁸ Interfax-Ukraine, 12 August, 2005.

¹⁹ Interfax-Ukraine, 4 November, 2005.

²⁰ Interfax-Ukraine, 21 October, 2005.

²¹ Interfax-Azerbaijan, 18 September, 2005.

²² Interfax-Azerbaijan, 17 February, 2005.

countries experienced in their relations with Russia as far as gas issues were concerned. Though some of them were provoked by the governments of Ukraine, Georgia, and Moldova themselves or invented (this happened in Georgia after the blasts at the main gas pipelines in January 2006), the three governments agreed that they needed alternative sources of energy fuels.²³ This issue is moving to the forefront on the GUAM agenda: for obvious reasons Azerbaijan is indispensable.

The unpleasant episodes with Rasul Guliev and the Pora organization notwithstanding, President Aliiev can rest assured that his regime is safe and will survive in the near future. Today, in fact, Baku can use its GUAM membership to parry accusations of insufficient democracy. Indeed, few people in the West are ready to accuse a member of a pro-Western regional international structure operating in the post-Soviet expanse of authoritarianism.

More than that: as a GUAM member, Azerbaijan remains free from binding economic obligations. The Kiev summit did pass a decision on a free trade area within GUAM,²⁴ but economic cooperation within it remains mainly "virtual." The trade volume among the members is not large, while very costly joint transportation projects are hardly economically efficient. The Odessa-Brody oil pipeline, the largest geo-economic project realized for the sake of GUAM's further development, proved to be an economic failure. The discussion of its possible reversal (today it brings Russian oil to the Odessa terminal to be shipped in tankers through the Black Sea straits), resumed shortly before the Kiev summit, failed to arrive at any specific decision.²⁵ This means that Azerbaijan is safe with its approval of GUAM's economic projects without troubling itself with finding more oil to fill the newly planned pipeline.

The Flourishing Post-Soviet Complexity

Today the GUAM members are no longer setting themselves ambitious aims. Kiev had to abandon its hope of replacing Russia as the leader of the post-Soviet expanse: last fall Iulia Timoshenko lost the post of Ukrainian premier; the Maidan coalition fell apart, and the results of the parliamentary election led to a protracted political crisis.²⁶ The results of the parliamentary election in Azerbaijan in November 2005, as well as the instability that followed the Tulip Revolution in Kyrgyzstan, devalued the forecasts of a "new democratization wave" in the post-Soviet expanse and undermined the ideological foundation of revived GUAM. Today it survives on the problems in Russia-the West relations and the mounting exacerbation of the problem of the unrecognized states on post-Soviet territory. The Russian "Conservatives" and "hawks" should always keep in mind that their statements, which bring the problems of Abkhazia, South Ossetia, Nagorno-Karabakh, and the Trans-Dniester Region into the context of geopolitical confrontation between Russia and the West, encourage GUAM.

²³ The Kiev declaration on setting up the Organization for Democracy and Economic Development-GUAM of 23 May, 2006 said that the member states "declare that economic pressure and monopolization of the energy market cannot be accepted. They emphasize the need to work more actively toward achieving energy security by diversifying the transportation routes for energy fuels from the Central Asian and Caspian regions to the European market," available at [<http://www.guam.org.ua/181.611.0.0.1.0.phtml>], 27 June, 2006.

²⁴ See: [<http://www.guam.org.ua/181.611.0.0.1.0.phtml>], 27 June, 2006.

²⁵ On the eve of the Kiev summit, Ukraine suggested that the Odessa-Brody oil pipeline be extended to Gdansk in Poland to move Caspian oil to the East European markets. "We are convinced that this is a profitable and unique model," said Viktor Iushchenko (Interfax-Ukraina, 12 May, 2006).

²⁶ The second edition of the Orange coalition created by Ms. Timoshenko's second advent as the prime minister will hardly change the situation: the Oranges have lost the political and ideological dynamism that motivated them early in 2005.

At the same time, it should be said that an analysis of the strategies the alliance members have been using in the last couple of years does not confirm the fairly widespread opinion that their foreign policies are subordinated to the West. The leaders of Georgia, Ukraine, Azerbaijan, and Moldova cannot ignore the United States and the largest of the EU members; they have to strengthen their relations with that part of the world. This choice, however, offers numerous options suggested by the complicated and dynamically developing interests of the post-Soviet elites. In most cases, pragmatic foreign policy strategies use ideological considerations as tools rather than a driving force.

International relations across the post-Soviet expanse are patchy: there are too many factors and too many contradictions; in future this will become even more obvious. In the near future, for example, we can expect a sharp economic upsurge in Azerbaijan, in contrast to its Trans-Caucasian neighbors. This will obviously create new political contexts.

The post-Soviet states have grown accustomed to being international players—even if of secondary importance. This means that the Russian elite should accept the fact that the future of the post-Soviet expanse can no longer be discussed and settled with the West. To strengthen its influence Moscow should take into account Baku, Tbilisi, Kiev, and other capitals. The West, on the other hand, will discover that the driving forces behind post-Soviet politics are much more complicated than they are usually described in the applications for civil society development grants.

PROSPECTS FOR THE DEVELOPMENT OF PEACE AND STABILITY IN THE SOUTHERN CAUCASUS

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The dramatic change that took place after the end of the Cold War has brought conceptual changes in the literature of International Relations. Security and stability are two such concepts which were affected on a major scale from this change.¹ In this period, new elements like re-

gional and ethnic conflicts, human rights, religious fundamentalism, international terrorism, economic problems, illegal trafficking of drugs and weapons gained threat status.

The South Caucasian region represents one of the most diverse and conflict-ridden regions in the world. It includes the three former Soviet

¹ For the widening dimension of the stability and security after the Cold War, see: B. Buzan, *People, State and Fear: An Agenda for International Security Studies in the Post-Cold War Era*, Lynnee Rienner, Boulder, 1991; idem,

“New Patterns of Global Security in the Twenty-First Century,” *International Affairs*, No. 67 (3), pp. 431-451.

states of Armenia, Azerbaijan and Georgia, as well as numerous ethnic minorities and small nations within these states. Three kinds of rivalries have been observed in the region since their independence: Firstly, between the regional states like Turkey, Iran and Russia, secondly between South Caucasian states themselves and thirdly between nations within the states.² These rivalries have become extremely complex, especially since the involvement of the U.S. from the mid-1990s. Each of these states, while trying to influence the dynamics of regional developments, developed policies based on various historical, economic, ethno-linguistic and cultural factors. However, as mentioned before, the main factors that allowed external powers to get a foothold in the

² See: St. Jones, "Georgia: The Caucasian Context," *Caspian Crossroads*, Vol. 1, No. 2, Spring 1995, pp. 7.

region were the continuing regional conflicts, on the one hand, and energy resources, on the other.³ The conflict of political and economic interests among these powers prevents a solution to the instability in the region.

The first of the ethnic conflicts which are the main reason for this instability occurred in the Armenian populated enclave Nagorno-Karabakh located within the territorial boundaries of Azerbaijan. The two other conflicts occurred in Georgia, between the Georgian central authorities of Tbilisi and the autonomous regions of Abkhazia and South Ossetia. In all the three cases, ceasefire agreements were reached without final settlements.

³ See: N.S. MacFarlane, *Western Engagement in the Caucasus and Central Asia*, Royal Institute of International Affairs, London, 1999, p. 24.

Interests of External Powers in the Region

Russia

The unique geographical location of the Southern Caucasus between the Black Sea and the Caspian Sea has throughout the centuries served the role of a bridge or barrier for Russia. In the aftermath of the dissolution of the Soviet Union, the Southern Caucasus was supposed to be a *cordon sanitaire* against instability emanating from the South.⁴

Apart from, geostrategic reasons, geopolitical factors are important for Russia. Russian geopolitical interest to the region can be explained with "Near Abroad Policy."⁵ Especially, Georgia was perceived by Russian strategists as a key component in Russia's security policy in the Southern Caucasus. In addition, Russia is interested in Caspian energy resources. For this reason, Russia aims to exert control over the region. Russian presence in the region has strengthened with the stationing of troops in accordance with its near-abroad policies.⁶

⁴ See: D.B. Sezer, "Russia and the South: Central Asia and the Southern Caucasus", *European Security*, Vol. 5, No. 2, 1995, p. 322.

⁵ S. Cornell, *Small Nations and Great Powers, A Study of Ethno-political Conflict in the Caucasus*, Curzon Press, United Kingdom, 2001, p. 348.

⁶ For Russia's Caucasian policy, see: A.G. Arbatov, "Russia's Foreign Policy Alternatives," *International Security*, Vol. 18, No. 2, 1993; M. Mohiaddin, "Russian Foreign Policy and Security in Central Asia and the Caucasus", *Central Asian Survey*, Vol. 12, No. 2, 1993. Against the states which oppose its military presence and growing influence in the region, Russian analysts have based Russian armed operations on the international law principle of "legitimate intervention" in conflict in another nation's territory at the request of that nation (O.N. Khlestov, A.I. Nikitin, "Using Armed Forces in International Relations and Russia's Point of View: International Legal Aspects," Foreign Military Studies Office publications, *Low Intensity Conflict and Law Enforcement*, Vol. 5, No. 1, 1996, p. 46).

Russia, also, aims at getting a large share in the operation and transportation of oil and natural gas resources and has followed suitable policies to realize these aims. At this point, Russia tried to preserve its power over existing transport pipelines, against the new oil pipeline projects of the West, for the transfer of Caspian energy sources. Russia has especially opposed the East-West pipeline project supported by the U.S. The eastward enlargement of NATO, especially with Georgian and Azerbaijani wishes of rapprochement with NATO, have led Russia to find strategic allies. In that context, Iran which has an anti-Western and anti-American regime, has become its most natural and most important partner.⁷ Apart from Iran, Russia in cooperation with its historical ally Armenia has also become partners with China due to the Shanghai Cooperation Organization. The policy of Russia toward the region can be summed up as follows: to keep the region within the Russian sphere of influence, to control the transportation of Caspian energy resources to the world market.

In that point, as argued by Revaz Gachechiladze "The emerging new geo-political geometry in South-Caucasus fosters anxiety and creates a feeling of imperial nostalgia that considers all post-Soviet territory to be in the sphere of Russian vital interests. Any encroachment by outside powers into Russia's historical sphere of influence is considered intolerable to the Russian political and military elites."⁸

Turkey

The Southern Caucasus region has created new advances and risks for Turkey in the aftermath of the Cold War.⁹ Turkey has become one of the important players in a region where it previously had only a marginal influence and no active involvement. The region, with which it has historical, ethnic, and cultural ties, has the same economic and strategic value for Turkey. It creates a buffer zone with Russia, is a bridge to the Central Asian republics, and possesses natural resources. Turkey considers Azerbaijan the most strategically located Turkic state: a gateway to Central Asia, a potential economic partner with huge petroleum resources and a natural ally in containing Russian influence in the region.¹⁰ In time, Turkey has become the only country that consistently supported Azerbaijan in its struggle over Karabakh, risking its relations with Armenia and Russia along the way.¹¹ In the Karabakh problem, Turkish public opinion backed Azerbaijan. Turkey has endorsed Azerbaijan in the international arena, joined the embargo against Armenia, and ended its diplomatic relations with Armenia. However, considering its position as a NATO member, on the one hand, and the position of Russia on the other, Turkey abstained from delivering arms to Azerbaijan or intervening militarily in the quarrel between the two countries. Turkey, upon the Azerbaijani request, used its connections in the West to try to bring the conflict to the attention of Western governments. However, domestic pressures made it impossible for Turkey to keep a neutral stance in

⁷ The relations between Russia and Iran continued to develop with Russian offer to Iran of low petrol prices between 1997 and 2007, and the reports on 4 billion dollars' worth of sale of equipment to Iran in an agreement of which Iran is urged to abide by its economic obligations (see: V. Vishniakov, "Russian-Iranian Relations and Regional Stability," *International Affairs*, Vol. 45, No. 1, 1999, pp. 143-153; Sh. Chubin, "Iran's Strategic Predicament," *Middle East Journal*, Vol. 54, No. 1, 2000, pp. 10-24).

⁸ R. Gachechiladze, "Geo-politics in the Caucasus: Local and External Players," *Geopolitics*, Vol. 7, No. 1, 2002, p. 128.

⁹ See: M. Aydın, "Determinants of Turkish Foreign Policy: Changing Patterns and Conjectures During the Cold War," *Middle Eastern Studies*, Vol. 36, No. 1, January 2000.

¹⁰ See: S. Bölükbaşı, "Ankara's Baku-centered Transcaucasia Policy: Has it Failed?" *The Middle East Journal*, Vol. 51, No. 1, 1997, p. 84.

¹¹ See: M. Aydın, "Turkish Policy Toward South Caucasus," *The Quarterly Journal*, No. 3, pp. 44.

the conflict, forcing Turkey to pursue a completely pro-Azeri policy.¹² Turkish relations with Georgia have thrived on Georgian opposition to Russian dominance in the Caucasus, its support for the BTC project, and its willingness to cooperate with Turkey on wide variety of issues, from tourism to security. In contrast to Russian involvement in ethnic issues in Georgia, Turkey's bipartisan approach to Abkhazia and Ossetian problems and its continuing reaffirmation of Georgian territorial integrity greatly helped to enhance the relations.¹³

Armenia is the only country in the region with which Turkey has distant relations. Turkey recognized Armenian independence on 16 December, 1991, without any preconditions and provided humanitarian aid to Armenia facing economic strains. Turkey has assisted in the transportation of aid from foreign countries and organizations to Armenia, and has even invited Armenia as a founding member of the Black Sea Economic Cooperation Organization (BSECO) founded on 25 June, 1992. The rapprochement, ready for development during the time of Levon Ter-Petrossian, however, was completely reversed due to the Armenian position in the Karabakh conflict. Turkey declared in April 1993 that it could not let its lands and airspace be used in any transport, including humanitarian aid missions to Armenian destinations.

Turkey as a member of the OSCE Minsk peace group, has been playing an important conciliatory role in the efforts to bring these disputes to a swift settlement bilaterally. Also, Turkey is pursuing economic cooperation, development and stability in the region. The BTC oil pipeline and the planned Baku-Tbilisi-Erzurum gas pipeline, have added economic importance to the Southern Caucasus for Turkey. Although there are tensions and conflicts of interests experienced in the region, such as when Russian and Turkish interests conflict, Turkey has learned two important lessons vis-à-vis its relationship with Russia: that Russia is an important economic partner for Turkey, and that an overly aggressive foreign policy in Eurasia is not advisable, given the risk of escalation into direct confrontation with Russia, the regional superpower.¹⁴ In this context, the Action Plan between the Russian Federation and the Republic of Turkey on cooperation in Eurasia that was signed in November 2001, is an important development in the possibility that we will see cooperation instead of rivalry between these two powers.

The U.S.

At the beginning of the 1990s, Washington was not keen on asserting its influence in the region, acknowledging it as Russia's sphere of influence. In the meantime, the U.S. limited its policy to espousing the Turkish model for the Muslim states emerging from the Soviet Union. At the urging of the American-Armenian lobby, Congress imposed sanctions in Azerbaijan in 1992 in the form of Section 907 of the Freedom Support Act. Up until the presidential waiver in 2002, this legislation barred direct government to government aid between Washington and Baku and constituted a major constraint on U.S. policy options toward the region. It could be said that America's policy regarding the Caucasus changed after 1997. However, during this time, American involvement in the Caspian Sea basin and Central Asia had largely been restricted to economic and diplomatic efforts, accompanied by a number of military aid agreements. U.S. policy toward the region changed even more dramatically following the events of 11 September. The

¹² See: S. Cornell, "Turkey and the Conflict in Nagorno-Karabakh: A Delicate Balance," *Middle Eastern Studies*, Vol. 34, No. 1, 1998, p. 62.

¹³ See: M. Aydın, "Turkish Policy Toward South Caucasus," p. 45 (see also: Y. Demirağ, "Turkish-Georgian Relations from Independence to Velvet Revolution," *Uluslararası İlişkiler*, Vol. 2, No. 7, 2005, pp. 125-157).

¹⁴ See: M. Aydın, "Turkish Policy Toward South Caucasus," p. 49.

U.S. initiated a very activist policy in the Southern Caucasus and many of its priorities have changed. Currently, the U.S. views its presence and policy in this region as a component of its larger Middle East and anti-terrorism policies.¹⁵ The U.S. understood a prerequisite for continued global hegemony was the domination of Eurasia.¹⁶

The growing influence of Russia, China and Iran in the region and the emergence of the Shanghai Organization of Cooperation have all contributed to growing American interest in the region. The U.S. entered the region by using the same pretexts that Russia and China used previously: security and terrorism. In this context, The U.S. conducts extensive security cooperation with both Azerbaijan and Georgia. Despite this cooperation, while the U.S. views conflict resolution in the region as important to promoting its own goals, it will not expend enough effort to resolve them. The foreign policy agenda of the U.S. is overburdened with Iraq, terror, Iran and the Middle East.¹⁷

The European Union

Prior to 1999, the EU retained a low political and strategic profile in the Southern Caucasus. In other words, the EU has decided not to intervene directly in the negotiation mechanism of the conflict so as to leave this to U.N. and OSCE. But, the EU abandoned this policy. Since 1999, events have demonstrated that EU changed its stance. In June 1999, the joint EU-Caucasus summit was held in Luxembourg where a consensus was reached that “outstanding conflicts are impeding the political and economic development of the South Caucasian States.” The signature of the Partnership and Cooperation Agreements (PCA) with the three Caucasian states on 22 June, 1999 in Luxembourg officially represented a qualitative breakthrough in EU-Caucasus relations.¹⁸ The Partnership and Cooperation Agreement provided a basis for economic, social, financial, industrial and cultural cooperation and promotes activities of joint interest. In a joint statement of the EU and Armenia, Azerbaijan and Georgia, it is stated that the conflicts in the Southern Caucasus are impeding the political and economic development of the region and that the EU stands ready to use its instrument to underpin concrete progress of the peace processes.¹⁹

Like NATO, the EU has been reviewing its foreign policy instruments that would serve its primary goals in this vast area: stabilization and democratization. The EU's growing geo-economic interests in the Caspian region should not be overlooked either. The EU has used predominantly economic tools such as economic assistance, creation of intra-regional cooperation structures such as TRACECA (Transport Corridor Europe-Caucasus-Central Asia) and INOGATE (Interstate Oil and Gas Transport to Europe) to achieve its regional objectives. For the EU, economic development of the regional countries would solve the ethnic problems. However, it is clear that economic solutions alone are insufficient to solve the region's problems.

¹⁵ See: Sh. Brenda, “U.S. Policy,” in: *The South Caucasus. A Challenge for the EU, Chaillot Papers*, No. 65, Institute for Security Studies, Paris, 2003, pp. 53-63.

¹⁶As clearly stated by Z. Brzezinski, “a power that dominates Eurasia would control two of the world's three most advanced and economically productive regions... About 75 percent of the world's people live in Eurasia, and most of the world's physical wealth is there as well, both in its enterprises and underneath its soil. Eurasia accounts for about 60 percent of the world's GNP and about three-fourths of the world's known energy resources. Eurasia is also the location of most of the world's politically assertive and dynamic states” (Z. Brzezinski, *The Grand Chessboard. American Primacy and its Geostategic Imperatives*, Basic Books, New York, 1997, p. 31).

¹⁷ See: Sh. Brenda, op. cit., p. 57.

¹⁸ C. Witterbrood, “Towards a Partnership with the Countries of the Eurasian Corridor,” *Insight Turkey*, Vol. 2, No. 3, 2000, p. 15.

¹⁹ See: *Joint Declaration of the European Union and the Republics of Armenia, Azerbaijan and Georgia*. Official website of European Union, available at [<http://www.europa.eu.int>].

The need for change in EU policies toward the region which began in 1999 with the PCA and the importance of the regional states for the EU were described in the words of EU Commissioner Van Den Broek during his Baku visit in 1998: "The EU's relations with Azerbaijan are more important than energy benefits and it plays a key role in our plans that reach up to Central Asia. Besides, it helps maintain stability in the Caucasian region of the European continent."²⁰ However, the events of 11 September shifted the priorities of the Council, as Central Asia and fighting against terrorism became the main concerns.²¹

On March 2003, the European Commission published its Communication "Wider Europe-Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors."²² Armenia, Azerbaijan and Georgia have been excluded for the time being on geographical grounds. It is interesting that the EU, which excluded South Caucasian states from the Wider Europe Neighborhood in March 2003, has claimed, shortly after this date, in June 2003, that these states should be considered within the EU's neighborhood in the draft strategy prepared by Javier Solana and entitled "A Secure Europe in a Better World."²³ In the wake of these developments, going a step further, the Council appointed Heikki Talvitie, the European Union Special Representative for the Southern Caucasus on 7 July, 2003.²⁴ The decision was declared to be in line with the Council's wish to play a "more active political role" in the region.²⁵

In the same direction, on 14 June, 2004, the European Council decided to include Georgia, Armenia, and Azerbaijan in the European Neighborhood Policy (ENP). At the same time, the Council endorsed the commission's strategy for putting the ENP into action. The objective of the European Neighborhood Policy is to share the benefits of the EU's 2004 enlargement with neighboring countries—i.e., stability, security and well-being in a way that is distinct from EU membership. It is designed to prevent the emergence of new dividing lines between the enlarged Union and its neighbors and to offer them an increasingly close relationship with the EU involving a significant degree of economic integration and a deepening of political cooperation. The ENP will also help address one of the strategic objectives the EU set in the European Security Strategy in December 2003, that of building security in its neighborhood. The inclusion of three South Caucasian countries in ENP gives an important message that the EU is fully committed to support these countries on their route toward building stable societies based on democratic values. Within the European Neighborhood Policy, each country will be given the possibility to develop its links with the EU and will be treated on its individual merits. The Policy is based on a commitment to the shared values of democracy, the rule of law, good governance and respect for human rights and to the principles of the market economy.²⁶ In line with the EU's policy toward the region, which changed and became more active, Commissioner Janez Potočnik met with the Presidents

²⁰ D. Lynch, "The EU: Towards a Strategy," in: *The South Caucasus. A Challenge for the EU*, p. 195.

²¹ See: D. Helly, "The Role of the EU in the Security of the South Caucasus: A Compromised Specificity?" *Quarterly Journal*, No. 3, September 2002, pp. 67-76.

²² "Wider Europe-Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors," *Commission Communication COM (2003)*, 104, Brussels, 11 March, 2003, available at [http://europa.eu.int/comm/external_relations/we/doc/com03_104-en.pdf].

²³ See: "A Secure Europe in a Better World," Paper presented by Javier Solana, High Representative for the Common Foreign and Security Policy, European Council, Thessalonika, 20 June, 2003, available at [<http://ue.eu.int/pressdata/EN/reports/76255.pdf>].

²⁴ See: Council Joint Action 2003/496/CFSP, available at [http://ue.eu.int/pesc/envoye/cv/talvitie/l_16920030708en00740075.pdf].

²⁵ H. Talvitie, "The EU and the South Caucasus—Perspectives for Partnership," *International Policy Dialogue. In-Went Development Policy Forum*, Federal Ministry for Economic Cooperation and Development, Berlin, 12-13 November, 2003, available at [www.dse.de/ef/caucasus/talvitie].

²⁶ See: Ch. Patten, *The EU-South Caucasus-The Gahrton Report*. Speech by the Rt Hon Chris Patten, European Parliament, Brussels, 26 February, 2004, available at [<http://europa.eu.int/comm/external-relations/news/patten/speech04-98.htm>].

of the three countries during his visit on 5-8 July.²⁷ During his visit, Potočník encouraged the partners to put special emphasis on conflict resolution and prevention and underline the importance of strengthening regional cooperation.

The Union has strategic and economic interests in the region. It is a junction for EU energy interests and an important transportation corridor. Its location makes it a potential major crossroads for trade. As a cornerstone of the ancient Silk Road it has invaluable links with the Black Sea countries to its west, Russia to its north, China to its east and Turkey, Iran, Pakistan, and India to its south. It gets geographically closer to an enlarged Union since it will border some of the new Member States.²⁸

Among the reasons of the main motive behind the EU changing policy toward the region, some factors can be counted. With the enlargement of 1 May, 2004, the EU has new member states,²⁹ which will have different interests from those of the older members. For instance, Lithuania and Latvia have been active in developing military ties with the three South Caucasian states. Georgia has sea borders with Bulgaria and Rumania being candidates for EU. The enlarged EU will have new borders. These new borders also bring a new immediacy to EU thinking about the states on its periphery and the policies that should be adopted in response to potential and actual threats emerging from these regions.³⁰ Stability in the region is necessary for the enlarged EU. The political interest of the EU toward the region should be linked with this. The sixth (expected to be completed with Rumania and Bulgaria by 2007) rounds of enlargement will extend the EU even further to the East.

Searches for Stability

As Gnesotto states, the Caucasus “presents practically all the security challenges that typify the post-Cold War period: newly independent states’ transformation from the Soviet system, regional conflicts and separatist movements, often against the background of religious strife, the difficult process of democratization in weak states, the flourishing activities of mafia networks and trafficking of various types directed by criminal organizations, the infiltration of networks linked to international terrorism, the security of oil and gas pipelines, ecological risks and massive economic development and so on.”³¹

Stability in the Caucasus is not just a regional issue. Unless there is stability in the Caucasus, it will be difficult to have stability in neighboring states and in Europe. For this reason, to date, many research centers and heads of state have proposed models of stability.³² First of all, the efforts of international organizations as U.N., NATO and OSCE for the establishment of stability in the region are essentially important. Apart from their efforts, the first step in this perspective came from the states of the Southern Caucasus. In February 1997, the South Caucasian states issued a joint declaration On Peace, Security and Cooperation in the Caucasian Region. They participated in the Kislovodsk Summit of 31 May, 1997, initiated by Russia, which ended with the adoption of the statement “On Mutual Understanding, Peace and Inter-Ethnic Accord in the Caucasus.” However these initiatives failed in the settlement of the regional conflicts.

²⁷ [[http:// europa.eu.int/comm/external_relations/ceeca/index.htm](http://europa.eu.int/comm/external_relations/ceeca/index.htm)].

²⁸ See: C. Wittebrood, op.cit., p. 24.

²⁹ Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

³⁰ See: D. Lynch, op.cit., pp. 173-174.

³¹ From his speech in a conference with the title “Transatlantic Security Cooperation Facing the New Challenges,” 17 November, 2003, Rome.

³² For the stability models proposed and their comparison, see: M. Emerson, “Approaches to the Stabilization of the Caucasus,” *Caucasian Regional Studies*, Vol. 5, No. 1, 2000, pp. 32-46.

Another proposal for the establishment of stability in the Caucasus region came in 1999 from the Armenian Foreign Minister Vardan Oskanian. This proposal which was formulated as “3+3” contained a scheme which asked for the establishment of a Regional Security and Cooperation Pact among Russian Federation, Turkey, Iran and the three South Caucasian states. Another proposal of such a pact came from the then Turkish president Demirel during the OSCE summit in November 1999 in Istanbul.³³ In the wake of this proposal Russia came up with the idea of “Caucasian Four” which would include Russian Federation, Georgia, Armenia, and Azerbaijan. Although Armenia declared interest in this scheme, it also declared it was friendly to the so-called Caucasian G8, made up of the three South Caucasian republics, Russia, Turkey, Iran, the EU, and the U.S. as well. As a result, the search for stability have turned into a rivalry of different approaches on regional cooperation.

Domestic problems are rendered even more complicated with the conflict of the great powers’ interests with regard to the region. The two most important and influential third-party mediators in the Caucasus are Russia and the United States. Despite the sweeping declarations about the end of the Cold War and the new era of cooperation and engagement, the political rivalry between these two states in the Caucasus has been continued. The U.S. has explicitly discouraged the Russian route for transporting Caspian oil to the West, and encouraged Azerbaijan and Georgia to play hardball with Russia. In response, Russia has tried to maintain and strengthen its strategic monopoly over the Caucasus, and both of them have used their economic and political levers in order to interfere in the domestic affairs of all three South Caucasian states as well as to influence the course of the three in the region in a direction most compatible with their interests, but not necessarily most conducive to a speedy political solution.³⁴

The Thawing Polarization in the Region in the Light of the Recent Developments and Prospect for Peace

Stability requires serious progress in resolving regional conflicts, which are often called “frozen” ones. In fact, conflicts themselves are not “frozen”—they are alive, they develop with different intensity and bring numerous negative effects. What is “frozen” though, is the process of conflict resolution.³⁵ Such domestic problems as weak state institutions, lack of political culture, corruption in the state structures, organized crime, social problems and economic hardships are potentially threatening the fragile domestic stability in South Caucasian states. However, the principal source of instability came from the unresolved armed conflicts in Karabakh, Abkhazia and South Ossetia. The regional security problems are intermingled with each other. The situation of “neither war, nor peace” and continuing threat of separatism in these countries are serious obstacles on the way of domestic stability and impede socioeconomic development and democratization process in these countries.

³³ See: S. Celac, “Prospects of a Stability Pact for the Caucasus,” *Caucasian Regional Studies*, Vol. 5, No. 1, 2000.

³⁴ See: A. Grigorian, “The EU and the Karabakh conflict,” in: *The South Caucasus. A Challenge for the EU*, p. 136.

³⁵ As pointed out by David Bakradze (Member of Parliament of Georgia).

The recent developments and the rapprochement among countries are promising in relation with the stability of the region. In particular, there has been considerable changes during the leadership of Vladimir Putin who declared on 21 September, 2001 a comprehensive cooperation with the U.S. in Washington's anti-terrorist campaign.³⁶ At the same year, his recognition of Georgia's territorial integrity and a formula of political settlement of regional disputes proposed by him during his visit to Azerbaijan in January 2001, according to which regional conflicts should be solved "without victors or vanquished" showed that he began to pursue more balanced and pragmatic policy in the Southern Caucasus.³⁷ Under the declaration of Baku, Vladimir Putin and Heydar Aliiev undertook to raise the level of state cooperation, particularly on economic issues.³⁸ On this occasion, a new agreement was signed on the exploitation of Azerbaijan's oil between LUKoil and SOCAR, the Russian and Azerbaijani companies. The dispute between Baku and Moscow concerning the legal status of the Caspian Sea was settled by an agreement signed by two states on 23 September, 2002.³⁹ Parallel to the economic rapprochement, there are signs of closer interaction between Baku and Moscow in the military field. During the Russian Defense Minister's visit to Baku from 26-27 February, 2003, a military cooperation agreement was signed, covering arms sales, modernization of military equipment and training of Azerbaijani military personnel by Russia.⁴⁰

The visit of the Russian head of state to Turkey after an interlude of 32 years and the visit of the Turkish prime minister to Russia in the wake of this visit, are pointing to an improvement in the Turkish-Russian relations and to the possibility that the Turkish-Russian relations will reflect positively on the South Caucasian region. Moscow revised its perception of Turkey's role in the region and views Turkey primarily as a "valuable partner" rather than a threat. The main reason behind the development of the bilateral relationship between Turkey and Russia is gas. Turkey is Russia's major market for gas. The completion of the Blue Stream gas pipeline under the Black Sea will increase Turkey's dependence on Russian natural gas from 66 percent up to 80 percent. Moreover, Russia is beginning to see Turkey as a transit country for its energy resources rather than simply an export market. As Alexander Lebedev, Russia's ambassador to Ankara, stated that the relations between Russia and Turkey have evolved from the stage of competition through that of cooperation and further on to the level of "multidimensional partnership."

Also, despite not any result was reached, the meeting which was held in Geneva in 21-23 April, 2005 and the following meeting at Sochi, served the promotion of practical cooperation and created an available atmosphere for a comprehensive settlement between Georgian and Abkhaz side.

C o n c l u s i o n

The regional unresolved conflicts give wide opportunities for the world and regional powers and international organizations concerned for direct intervention in the regional processes. Their contradicting geopolitical and geostrategic interests prevent the establishment of a regional security environment. In international politics, it is natural that each state tries to protect its interests. When the policies toward the region are analyzed, it can be seen that this actually is the case. However, this

³⁶ See: L. Buzsynski, "Russia and The Commonwealth of Independent States in 2002: Going Seperate Ways," *Asian Survey*, Vol. 43, No. 1, 2003, p. 17.

³⁷ See: V. Tretiakov, "Putin's Pragmatic Foreign Policy," *International Affairs*, Vol. 48, No. 3, 2002, p. 17.

³⁸ See: "Russian President Starts Russo-Azeri Relations," *Azernews*, No. 2 (187), 2001.

³⁹ See: A. Jafalian, "Influences in the South Caucasus: Opposition & Convergence in Axes of Cooperation," Conflict Studies Research Centre, U.K., February 2004, p. 5.

⁴⁰ See: "Azerbaijan and Russia Signed Agreement on Military-Technical Cooperation," *Baku Today*, 28 February, 2003.

situation hardens the problems rather than bringing stability to the region. In other words, rivalries and conflicts should be replaced by cooperation. To this end, as Michael Emerson stated, the balance of power concept should be substituted by balance of interests.⁴¹ Only by this means stability in the region can be realized. As cited above, stability is vital in this region and it is also a necessity for all the states that have policies toward the region, because, as long as instability rises, not the possibilities offered by the region, but only the troubles are to be shared. Also, external factors are only the part of the whole picture and cannot explain the overall failure to achieve progress in the process of conflict resolution. Differences in vision, perceptions and orientations of South Caucasian states undermine the idea of regional cooperation. As a consequence, in order to establish stability in the region, cooperation between the South Caucasian states and external powers among themselves is necessary to achieve this end.

⁴¹ See: M. Emerson, "A Stability Pact For the Caucasus," *Insight Turkey*, Vol. 2, No. 3, 2000, p. 22.

EURO-ATLANTIC INTEGRATION TRENDS OF THE SOUTH CAUCASIAN STATES

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After the big bang enlargements of the EU and NATO in 2004, the Southern Caucasus was recognized as an important region for the further strengthening of stability, security, and prosperity in the Euro-Atlantic space.

NATO and the Caucasus

NATO declared a shift in the geographical focus of the Euro-Atlantic Partnership. While the continuing stabilization and integration of the states in the Western Balkans remained a high priority for NATO, the Southern Caucasus and Central Asia were declared its new geographical priority.

The views presented in the article don't reflect neither the positions of the Foreign Ministry of Armenia nor the OSCE.

Without offering the prospect of membership, NATO committed itself to refocusing its resources toward these two regions, assisting those countries willing to reform their defense institutions, launching political consultations with NATO, contributing to the international fight against terrorism, and destroying the stockpiles of outdated ammunitions. While the Individual Partnership Action Plan mechanism was formally offered to all Partners at the Prague Summit of NATO/EAPC in 2002, even if it was self-evident that it was designed for the Partners in the Caucasus, Central Asia, and Moldova, PAP-DIB endorsed at the Istanbul Summit in 2004 was specifically targeted at those Partners.

Central Asia and the Caucasus were put in the same basket in all the documents on the Euro-Atlantic Partnership endorsed at the Istanbul Summit of NATO/EAPC. As a follow-up to the Istanbul Summit, the Secretary General appointed Mr. Robert Simmons, his Deputy Assistant for Political Affairs and Security Policy, as his Special Representative for Central Asia and the Caucasus. At the same time, he nominated two liaison officers for each of these two regions. While the Special Representative is mandated to facilitate a political dialog with the high-level officials of the countries of both regions, also being entitled to deliver the Alliance's political messages to the general public in his interviews and briefings, the liaison officers are authorized to deal with the practical issues of defense cooperation and reforms. The liaison officer for the Caucasus mainly resides in Tbilisi, and he frequently visits Erevan and Baku.

The fact that the Special Representative of the NATO SG was the same for Central Asia and the Caucasus was prompted by the American approach of considering these two regions strategically important in the fight against international terrorism. However, in spite of their common Soviet legacy, the South Caucasian states, especially Georgia and Armenia, do not associate themselves with Central Asia, considering themselves European and more accomplished in democratization and human rights. The developments that shortly followed the adoption of those initiatives demonstrated the differences between Central Asia and the Southern Caucasus.

The three South Caucasian states were the first Partners to engage in Individual Partnership Action Plans with NATO. The Georgian, Azeri, and Armenian IPAPs have already been adopted by the North Atlantic Council, and their implementation is currently underway. They define the Partners' objectives and plans for their consultations with NATO on political and security issues, defense, security, and military reform issues, including interoperability with NATO's armed forces already pursued within the framework of the PARP—successful Planning and Review Process of PfP, and democratic control of armed forces, as well as their cooperation with NATO in public information, science, the environment, and civil emergency planning. Every Partner is entitled to specify its individual objectives and needs, however, two components of the IPAP menu—political consultations and defense reform—are its mandatory elements. Involvement in IPAP became the main criteria of the level of cooperation with NATO of those Partners not involved in the Membership Action Plan with NATO.

The objectives of the three Caucasian states to establish individualized relations with NATO differ from each other. Georgia, the pioneer of IPAP, has formally declared its NATO membership aspirations and expects to be offered a Membership Action Plan with NATO. Since NATO is reluctant to promise Georgia MAP at this time, the country has been engaging in IPAP as an intermediary stage. Georgia is also attempting to use the mechanism of political consultations of IPAP for involving NATO Allies in the settlement of its tensions with Russia, particularly over South Ossetia and Abkhazia.

The excitement over the Rose Revolution among the Allies, the intention to make Georgia a role model for other states in the region, and the concerns about the potential instability in Georgia spilling over to the rest of the region in the event its reforms fail triggered their political support and practical assistance to Georgia. At the same time, the Allies are aware of Georgia's internal problems and realize that their resolution will take time and persistence. Nor do they seem enthusiastic about becoming involved in settlement of the conflicts over South Ossetia and Abkhazia, restricting their involvement to reducing Georgian-Russian tension by continuously reminding [Russia] to fulfill its remaining OSCE

Istanbul Summit commitments to Georgia and encouraging the withdrawal of Russian forces from Georgia.

Generally speaking, NATO aspires to develop relations with all three South Caucasian countries at the same rate, however, if Georgia manages to swiftly carry out the pledges it has undertaken in accordance with IPAP, it might become increasingly difficult not to accommodate Georgia's urge to receive special treatment in return for its clearly stated pro-Western orientation. Since Georgia is still far from NATO's standards, a mechanism similar to the intensified dialog on membership aspirations and related reforms launched with Ukraine a year ago might also be offered to Georgia.

Azerbaijan has not presented a request to become a NATO member, although its officials ambiguously mention Euro-Atlantic integration as an objective. The current Azeri leadership has declared that NATO membership is not on the country's agenda, and maintains good relations both with Russia and NATO. Although NATO has made it clear that it has no intention to duplicate the mediation efforts of the OSCE Minsk Group, Azerbaijan will undoubtedly attempt to use the mechanism of IPAP political consultations to carry out anti-Armenian propaganda and advocate its position on the Nagorno-Karabakh conflict, as it tried to do in all other formats of the Euro-Atlantic Partnership and other international forums. At the same time, Azerbaijan, together with Georgia, will most probably try to promote the idea of NATO's involvement in developing pipeline security measures.

Armenia's development of IPAP with NATO shortly after Georgia and Azerbaijan was somewhat unexpected, since until recently Armenia has been traditionally considered a pro-Russian state, and its cooperation with NATO as face-saving. Armenia's IPAP became the most evident embodiment of the long-declared principle of complementarity, which means that Armenia is aimed at maintaining balanced relations with all the powers active in the Southern Caucasus. It is also a way to advance Armenia's European integration as well as its international engagement in general. Besides, Armenia's involvement in IPAP is a counter-balancing measure to promotion of the Azeri stance on the Nagorno-Karabakh conflict and to the creation of misperceptions about Armenian policies among the Allies. A number of Armenian officials stated between 2003 and 2005 that although NATO membership is currently not on the country's agenda, it is not excluded in the long run. However, Armenia's IPAP might be overshadowed by Armenia's growing energy dependence on Russia.

After the three South Caucasian states, Kazakhstan and Moldova expressed their willingness to enter IPAPs with NATO. Uzbekistan declared its intention to develop an IPAP even earlier, but the development of the Uzbek IPAP was frozen right at the beginning due to violations of human rights in that country and subsequently halted due to the Andijan events. Other Central Asian states have not shown an interest in the IPAP mechanism.

Although there are no more wide gaps between the levels of practical cooperation between the three Caucasian states and NATO, the style of their cooperation still fluctuates. While Georgia rushes to join all the NATO initiatives and the practical steps of its cooperation are accompanied by public political declarations, Azerbaijan pursues rhetoric only in connection with its desire to involve NATO in the settlement of the Nagorno-Karabakh conflict. Armenia has adopted a pragmatic approach, being reserved in its public statements and closely examining NATO's new initiatives before committing to them, instead gaining a good reputation for the quality of their practical implementation. Due to these differences in manner of presentation, the NATO member states also perceive the cooperation of these states in different ways. Whereas Georgia takes a lot of political credit for everything it has committed to do, Armenia often loses political credit and has difficulty overcoming the prevailing stereotype that it is pro-Russian and its cooperation with NATO is not sufficient. Even if the people at NATO Headquarters have started giving Armenia credit for the quality of its implementation, that good reputation does not always reach the practitioners and analysts in the capitals of the NATO states.

The South Caucasian states are also trying to show that they are not only security consumers, but also security providers by contributing to the NATO-led or NATO-backed peacekeeping operations to the extent of their capabilities or rather ambitions. All three of them participate in the Kosovo Force and in the operations in Iraq. Azerbaijan is highly appreciated by the Allies for being part of the International Security Assistance Force in Afghanistan.

However, NATO also makes the Partners feel that the Euro-Atlantic Partnership is not only about defense cooperation and contribution to peacekeeping, but also about sharing values and respecting the principles of the EAPC and PfP. Given that approach, in 2004, NATO canceled the cooperative "Best Effort" PfP exercise, which was to be held in Baku, due to persistent attempts by the Azeri authorities to prevent Armenia from participating in the exercise. Thus, NATO demonstrated that it will not tolerate violation of the Partnership's fundamental principles, one of them being inclusiveness. The cancellation of that exercise also significantly improved NATO's image in Armenia, at least partly rooting out the perception existing in the country's general public that since Turkey is a NATO member, the Alliance will always be biased against Armenia and in favor of Azerbaijan.

The faster pace of the states in the Southern Caucasus to commit to the newly suggested format of IPAP manifested their greater readiness or at least willingness than the Central Asian states to launch the reforms required in accordance with the Individual Partnership Action Plans. Having already had a similar experience with the Council of Europe, they also seem more open to hear critical comments on good governance, rule of law, elections, and human rights protection in their respective countries. Although only implementation of IPAPs will show the North-Atlantic Alliance how genuine and durable is their commitment to defense reform, especially due to the involvement of all three of them in unsettled conflicts. However, they are likely to be more prepared for that sensitive and costly endeavor.

The EU and the Caucasus

In parallel to the processes within NATO's Euro-Atlantic Partnership, the European Neighborhood Policy, developed by the European Union in the context of the EU's big bang enlargement and designed for its immediate neighbors, was extended to include the countries of the Southern Caucasus, with which the acceding countries Bulgaria and Rumania, and the candidate country Turkey share either a sea or land border. Other immediate neighbors of the EU candidates, including Croatia and the Former Yugoslav Republic of Macedonia, are not being asked to be a part of ENP since they are already participants of another framework—the Stabilization and Association Process—designed specifically for the states in the Western Balkans and explicitly aimed at their full integration into the European Union. Unlike the SAP, the ENP does not promise the prospect of membership, but intends to deepen the political relationship and economic integration of engaged EU neighbors based on their commitment to democracy and human rights, rule of law, good governance, a market economy, and sustainable development. If tangible progress is achieved in conflict settlement in the Caucasus, it will introduce serious amendments in the Action Plans with the EU and the IPAPs with NATO, paying special attention to regional cooperation.

The Stabilization and Association Process is being implemented through the bilateral Stabilization and Association Agreements between the European Union and its participants. Likewise, in order to accomplish the tasks outlined in the ENP, the EU offered its engaged neighbors bilateral instruments—Action Plans. In 2005, the EU Commission made recommendations to develop Action Plans with the three states of the Southern Caucasus. The purpose of these Action Plans is to define an agenda for relations with the European Union for the next three to five years, given the particular needs and capacities.

Negotiations on elaboration of the EU's Action Plans with Armenia, Georgia, and Azerbaijan are underway, although future approval of the Azeri Action Plan will await settlement of the dispute between Azerbaijan and Cyprus after the establishment of air communication between Azerbaijan and the Turkish Cypriot Republic. What is more, given the EU's regional approach to the Southern Caucasus, it might freeze the Action Plans with Armenia and Georgia as well. Jeopardizing the Action Plans of Armenia and Georgia because of Azerbaijan's specific bilateral problem with an EU country aroused their discontent, making them demand more individualized approach by the EU to the countries in the region.

The EU chose Tbilisi as the location for its first and still only full-fledged delegation in the Caucasus. It also nominated a Special Representative for the Southern Caucasus in 2003. The term of Ambassador Heikki Talvitie from Finland ended at the beginning of 2006 and Ambassador Peter Semneby from Sweden succeeded him in that position. It was stated that there has been a change not only in the representative, but also in his mandate, and the EU authorized the new Representative to contribute to the settlement of the conflicts in the Caucasus. It is worth mentioning that both representatives of the EU to the Southern Caucasus are from Scandinavian countries, like the Head of the U.N. Mission to Kosovo, the U.N. Envoy for the Review of the Implementation of Standards for Kosovo, and the U.N. Special Envoy for the Final Status of Kosovo. That choice might be conditioned by the reputation of the Scandinavians as unbiased intermediaries.

At present, the EU officials are expressing general satisfaction with the mediation efforts of the OSCE in the Nagorno-Karabakh conflict and are not keen either to replace or to duplicate its mediation efforts. Reportedly, the possibility of deploying EU peacekeepers after signing a peace agreement is under consideration in the context of the peace negotiations over Nagorno-Karabakh. The EU has provided economic assistance to South Ossetia and Abkhazia, at times accompanied with confidence-building measures. It has also promised wider assistance in post-conflict rehabilitation after the settlement of the conflicts all over the Caucasus.

As in case of NATO membership, Georgia is trying to be in front of the South Caucasian states in EU membership too, striving in particular to be associated with the Baltic Sea region rather than with the Caucasus. Georgia has adopted full integration into the European Union as an ultimate goal, while for Armenia, European integration is a long-term objective. This orientation reflects the prevailing recognition of Georgian and Armenian society that their identity and cultural roots are historically European. The main difference between the aspirations of Armenia's and Georgia's Euro-integration is that Armenia does not seek NATO membership at this time, while integration into the EU and NATO has been a dual-track policy throughout Central and Eastern Europe. Azerbaijan has expressed its intention to become a member of the European family, while remaining a member of the Organization of the Islamic Conference and considering itself an integral part of the Islamic world with its historical past and religious and cultural values. Azerbaijan's striving for European integration is even vaguer than that for Euro-Atlantic integration.

Complementarity, Impediments, and Ambiguity

Obviously, the strategies of the EU and NATO in the Southern Caucasus are complementary, if not dual-track. They share such values as commitment to democratic and economic reforms, human rights, fundamental freedoms, and the rule of law. A division of labor has taken place between the Union and the Alliance to promote reforms in the region and its integration based on the comparative advantages of each of them. Commonalities and even some overlapping between Individual Partnership Action Plans with NATO and Action Plans with the EU are noticeable, which makes it necessary

to synchronize them. Both of them are based on the same values of democratic reform, rule of law, human rights, and fundamental freedoms, and both of them challenge the engaged countries to show the extent to which they share those values. And both of them are not about enlargement, but about a deepened partnership.

Important obstacles to Euro-Atlantic integration of the South Caucasian states are the unsettled conflicts over Nagorno-Karabakh, South Ossetia, and Abkhazia, the absence of good neighborly relations between Armenia and Turkey, and the lack of a culture of regional cooperation.

In spite of the prospect of bridging the gap between territorial integrity and self-determination by granting conditional independence to Kosovo, even if such a solution must be imposed on Serbia, the EU and NATO member states involved in the process are trying to avoid making it a precedent for the other unsettled conflicts in the Euro-Atlantic area. Nevertheless, that reluctance is most conditioned by Russia's involvement in the conflicts over Abkhazia, South Ossetia, and Transdnistria as an interested party, which is not the case for the Nagorno-Karabakh conflict.

Besides, Armenian-Turkish relations remain the last Iron Curtain in the Euro-Atlantic space. Armenia expects NATO and especially the EU to put pressure on Turkey to establish diplomatic relations with Armenia and to open borders. NATO has the approach of non-interference in the bilateral relations between its members and partners, instead providing them with a common security umbrella for reducing tension. The European Union has included a vague paragraph in the negotiations' framework for Turkey's accession to the EU, requiring it to establish good neighborly relations, which is simply a repetition of the respective Copenhagen criterion, without naming Armenia and the nature of the problem.

Regional cooperation in the Caucasus has become a hostage of the unsettled conflicts. Armenia believes there is no need to wait for settlement of conflicts in order to launch cooperation. Cooperation should be outlined not after the conflicts are resolved, but at the same time as the political settlement process, thus synchronizing political, security, and economic dialogs. However, Azerbaijan opposes launching any regional cooperation involving Armenia before settlement of the Nagorno-Karabakh conflict and is trying to exclude Armenia from regional projects and initiatives. Georgia allies with Azerbaijan or Armenia when it needs to pursue its political and economic interests, and as the Baku-Tbilisi-Ceyhan pipeline project and affiliation with GUAM illustrate, it partners more often with Azerbaijan than with Armenia.

Georgia has also launched a project with Turkey to build a new Tbilisi-Akhalkalaki-Kars railroad, trying to replace the existing one between Tbilisi and Kars via Gumri, which has been not functioning for more than a decade because of Turkey's blockade of road and rail networks with Armenia. The European Commission has stated that it will not fund the project since it contradicts the spirit of regional cooperation.

Often the officials of the EU and NATO express the futility of launching regional cooperation in the Caucasus in the short term. Armenia believes that they should not give up the objective of promoting and deblocking it by putting more pressure on Azerbaijan and Turkey.

Recently both the EU and NATO have been referring more and more often to the possibility of launching cooperation in more inclusive regional arrangements than the Caucasus, such as the wider Black Sea region or the Baltic states plus the Caucasian states format. Bringing the states of the Black Sea and Baltic Sea regions that have already completed their Euro-Atlantic integration and will shortly complete their European integration together with the three Caucasian states has the potential of creating a favorable environment for relaxing security concerns, extending the peace zone, and contributing to the cooperative spirit. However, these formats have some constraints for playing an enhanced role as well. One of them is the likelihood that they will promote collaboration between individual Caucasian states and the Baltic or the Black Sea region states, but not cooperation among the Caucasian states themselves.

The Caucasus, along with Balkans, has always been the hotspot of wider Europe. The states in the Western Balkans started developing regional cooperation and deepening their reconciliation only after the EU reiterated its determination to fully support their European prospects at the 2003 Thessaloniki Summit. Even being subjected to the EU's conditionality principle, discarding old policies and mentality is not a smooth process in the Western Balkans, and it is difficult to predict whether the region will stabilize or destabilize after defining the final status of Kosovo.

The policy of both the EU and NATO toward the Southern Caucasus is obscure and raises a range of questions. How they can achieve better complementarity in the region?

Do the proposed Action Plans offer sufficient incentives to encourage reforms? What will follow the implementation of those Action Plans? After the EU and NATO digest their big bang enlargements, will they offer pre-accession instruments to those countries? If so, what will be the scenario of enlargement in the region—will the EU and NATO adopt a regional approach, trying to integrate all three countries at more or less the same rate, or take an individualized approach contingent on their willingness, conditional on their performance, and dependent on their interstate relations? What will be the consequences of extending the enlargement policy to the Southern Caucasus for the EU, NATO, the region as a whole, and its individual states? All these questions need answers both from the Union and the Alliance, as well as from the three states in the region.

THE MULTILATERAL STRUCTURES AND LEGAL FOUNDATIONS OF RUSSIA'S SECURITY POLICY IN CENTRAL ASIA

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How Russia Built Up Its Foreign Policy Strategy Across the Post-Soviet Expanse

In 1991, when the Soviet Union ceased to exist and when Russia lost the larger part of its economic, political, and military potential, it had to build up its foreign policy under the new conditions from scratch. In the next 15 years, its policy went through several development stages, each of

them marked by revised foreign policy trends and approaches.¹ At the first stage, Moscow concentrated on broader relations with the West and, for that reason, temporarily moved away from the former Union republics. However, as soon as the West and the countries of the region increased their pressure on the post-Soviet expanse, the Kremlin promptly revised its foreign policy ideas to turn the limelight on the CIS. In 1993, the then RF Foreign Minister Andrey Kozyrev elaborated a new foreign policy conception for the Russian Federation that, together with continued relations with the U.S. and Western Europe, spoke about developing cooperation within the CIS and protecting Russia's interests and the rights of the Russian-speaking minorities, as well as conflict settling across the post-Soviet expanse, which was described as a sphere of Moscow's special responsibility.² Russia's military doctrine likewise dwelt on the key military-strategic aspects of Russia's policies in the Near Abroad. Meanwhile, the socioeconomic situation in the post-Soviet expanse was rapidly worsening; the area was swept by destabilization caused by separatism and ethnic strife. This, in turn, ignited armed conflicts. Having assumed responsibility for conflict settlement and stronger security and peace in the region, Moscow envisaged the possibility of using force in its new military doctrine. In view of NATO's eastward movement and stronger Western and regional pressure, the Russian leaders had to take urgent measures to limit this influence and keep foreign forces at bay in the post-Soviet expanse. While defending its interests, Moscow renounced its pledge not to be the first to use nuclear weapons to protect its territory as well as that of its allies against external enemies. It was obviously an effort to "tie" the militarily and economically weak CIS members to it by strengthening joint security. The outside world interpreted Russia's new foreign policy course in the CIS as Moscow's neo-imperialist ambitions and its desire to preserve its military presence and political influence in the region.³

The armed conflicts in Moldavia, Georgia, and Tajikistan called for urgent peacekeeping interference to avoid vast bloodshed. This led to bilateral agreements involving Russia's units stationed there since Soviet times; later they acquired the status of peacekeeping forces within the CIS.⁴ Art 11 of the CIS Charter adopted on 22 January, 1993 says: "Member states ... shall support security in the Commonwealth, including with the assistance of groups of military observers and collective forces for maintaining peace." Art 12 of the same document envisages "peacekeeping operations and the use, where necessary, of the Armed Forces in accordance with the procedure for exercising the right to individual or collective defenses according to Art 51 of the U.N. Charter."

In 1992, in Tashkent, the CIS countries signed the Collective Security Treaty to achieve closer cooperation in reaching these aims and deepening cooperation in the sphere of joint security; the treaty was enacted in April 1994. In this way, the CIS set up in 1991, which failed to achieve genuine integration and cooperation, became a real regional structure; it served as a legal basis for peacekeeping operations in post-Soviet territory.

In 1996-1999, when Evgeni Primakov was RF Foreign Minister, the Russian Federation successfully developed its foreign policy in the Southeast. An Oriental scholar, the minister never tired of saying that Russia's special position in Eurasia does not permit it to be called a purely European state. This accounted for the absence of the traditions of democracy and liberalism in their European interpretation. For this reason, argued the foreign minister, and due to its historical experience and geographic location, Russia should implement a multi-vector policy and develop relations with the

¹ For more detail, see: L. Selezneva, "Post-Soviet Russian Foreign Policy: Between Doctrine and Pragmatism," *European Security*, Vol. 11, No. 4, 2004, pp. 10-27.

² See: A.Z. Rubinstein, "The Transformation of Russian Foreign Policy," in: *The International Dimension of Post-Communist Transitions in Russia and the New States of Eurasia*, ed. by Karen Dawisha, New York, 1997, p.43.

³ See: M. Çaşın, *Rus İmparatorluk Stratejisi*, ASAM, Ankara, 2002.

⁴ For more detail, see: K. Kurova, *Rol' Rossii i SNG v uregulirovanii voennykh konfliktov v Zakavkazie*, Institute of International Relations at Warsaw University, available at [<http://www.mpa.ru/files/sb1/3.doc>].

West as well as with the Middle East, South Asia, and Southeast Asia.⁵ In the Near Abroad, in Central Asia and the Caucasus in particular, Russia should pursue a policy of mutually advantageous partnership with the regional countries (Turkey, Iran, China, etc.).

At that time, Russia was demonstrating its growing distrust of the West fed by NATO's continued enlargement, the U.S.'s withdrawal from the ABM treaty, mounting nationalist sentiments inside the country, and dissatisfaction with what the West was doing in Yugoslavia. In 1999, the Cold War was reenacted when America and its NATO allies used force to settle the Kosovo conflict. Simultaneously, the anti-terrorist operation in Chechnia that began in 1999 and Vladimir Putin's coming to power opened a new period of Russia's foreign policy both in the Near and Far Abroad.

Russia's New Foreign Policy Strategy of Security in Central Asia

The National Security Conception of the Russian Federation adopted in 2000 reflected the external conditions in which the state was operating at that time as well as its domestic and foreign policy priorities.⁶ In the international sphere, Russia will concentrate on securing its sovereignty and reinforcing its position as a great power, one of the influential centers of the multipolar world. It will develop equal and mutually advantageous relations with all countries and integration associations (with the CIS members and Russia's traditional partners in particular) related to the observance of human rights and freedoms everywhere and the inadmissibility of double standards in this sphere.

The following were described as major threats to Russia's national security on the international level: the desire of individual countries and inter-state alliances to downplay the role of the existing mechanisms designed to ensure international security (the U.N. and OSCE in particular); the strengthening of military-political blocs and alliances, NATO's eastward movement in particular; the possible deployment of foreign military bases and large military contingents in direct proximity to Russia's state borders, as well as attempts by certain countries to interfere with Russia's stronger position as one of the centers of influence in the multipolar world. The document described the weaker integration processes in the CIS as a threat to Russia's national security, together with the escalation of conflicts in the RF, CIS and neighboring areas and the threat of terrorism. The conception described more active foreign policy efforts designed to develop relationships with the CIS countries in full accordance with the principles of international law with a view to adding vigor to integration within the CIS, which meets Russia's interests. This included peacekeeping activities under the aegis of the U.N. and other international organizations; and development of international cooperation in fighting transnational crime and terrorism. The document, which presented a new military doctrine, said that Russia's military security was the state's most important task. It described in greater detail the key military-strategic aspects and the conditions under which Russia was prepared to use its military forces.⁷

⁵ See: L. Selezneva, op. cit., p. 16.

⁶ See: *Kontseptsiia natsional'noy bezopasnosti Rossiiskoy Federatsii*, endorsed by the Decree of the RF President of 10 January, 2000, No. 24, available at [<http://www.armscontrol.ru/start/rus/docs/sncon00.htm>].

⁷ See: *Voennaia doktrina Rossiiskoy Federatsii*, endorsed by the Decree of the RF President of 21.04.2000, No. 706, available at [<http://www.mil.ru/articles/article3929.shtml>].

Since 1999, the Russian leadership has been working toward closer ties within the CIS, in the collective security sphere in particular, to neutralize the ever-growing Western influence in the region. Moscow's new policy was prompted, among other things, by the withdrawal of Georgia, Azerbaijan, and Uzbekistan from the Collective Security Treaty (CST), which described it as not effective enough.⁸ Further developments in Central Asia, however, such as the terrorist acts in Uzbekistan and southern Kyrgyzstan, as well as the continued threat that radical extremism would spread from Afghanistan and Tajikistan to their neighbors, stimulated much closer cooperation between Russia and the CST members. This opened a new stage in the collective security policy in Central Asia.

Moscow's policies in the Southern Caucasus failed when Azerbaijan, Georgia, and Uzbekistan moved away from Russia and betrayed their intention to integrate with the West. For this reason the Russian Federation had to develop more constructive policies in Central Asia: it left Turkmenistan to its own devices and is developing moderate economic relations with this country, while moving closer to Astana through the use of Kazakhstan's geopolitical situation and the large Russian diaspora in the republic for this purpose. Uzbekistan's obvious desire to pursue an independent foreign policy course forced Moscow to strengthen relations with Tajikistan and Kyrgyzstan, its two other strategic partners in the region. Having supported the legal government during the Civil War in Tajikistan, Moscow became the main guarantor of the peace agreement signed in 1997 and the country's further stabilization. On the strength of the 1999 agreement on allied relations, Russia's 201st motorized infantry division, which remained in the republic as part of the CIS peacekeeping forces during the Civil War, extended its presence for another ten years. It was agreed that after that period it would be transformed into a Russian military base.⁹ In connection with the Batken events of summer 1999 and 2000, Russia increased its military aid to Bishkek to \$1 million to strengthen the Kyrgyz army; it also stepped up bilateral antiterrorist efforts. Strategic relations between Moscow and Tashkent, which were suspended when Uzbekistan left the CST, were given a fresh boost in the joint antiterrorist struggle.

Moscow's bilateral contacts in Central Asia were also strengthened by closer multilateral cooperation within the CST, in which three republics (Kazakhstan, Kyrgyzstan, and Tajikistan) are actively involved, as well as within the Shanghai Five, which has united four regional states, Russia, and China since 2000.¹⁰

The CIS Collective Security Treaty

The Collective Security Treaty enacted in 1994 unites six CIS members: Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan (until 1999 there were nine members). It was set up to create a collective security system in the post-Soviet European and Asian expanse realized through consultations on all key international security issues that might damage their interests. The mechanism of consultations helped coordinate their actions and liquidate threats to their security, as well

⁸ See: S. Minasian, "CIS: Building a Collective Security System," *Central Asia and the Caucasus*, No. 1 (19), 2003, p. 133.

⁹ See: S. Shermatova, "Tajikistan-Rossia: torg vokrug voennoy bazy," available at [<http://news.ferghana.ru/detail.php?id=400883255809.64,1267,17428674>].

¹⁰ Kazakhstan, Kyrgyzstan, and Tajikistan were full-fledged members of this organization from the very beginning; in 2000, Uzbekistan was given the status of observer and joined it as a member a year later. Since 2001, the organization has been functioning as the Shanghai Cooperation Organization (SCO).

as to the territorial integrity and sovereignty of one or several members or to international security (Art 2).¹¹ Under the Treaty, the member states set up the Collective Security Council (CSC) made up of heads of state and the commander-in-chief of the CIS United Armed Forces. Aggression against one of the members or group of members would be regarded as aggression against all the member states. In this event, all the members will extend every necessary assistance to the victim of aggression up to and including military assistance, as well as support it with all the means at their disposal in full conformity with the right to collective defenses and Art 51 of the U.N. Charter (Art 4). This suggests that collective security is not the Treaty's only purpose: it intends to set up a military-political bloc. Indeed, Art 1 says that the member states shall not join military alliances or groups of states and shall refrain from taking part in actions against any other member state. Its inefficiency (in particular in the conflict settlement in the Caucasus and the failure to set up an efficient security system) cost the Treaty several of its members in the first five years of its existence. This showed Russia and other members that the structure should be more effective: in May 2000, the Minsk CSC meeting supported the idea of three regions of CST cooperation: European, Caucasian, and Central Asian. Some time later, in October 2000, the Bishkek CSC meeting passed a decision on setting up a collective security force system; in May 2001, in Erevan, it was decided to create Collective Rapid Deployment Forces (CRDF) for Central Asia made up of Russian, Kazakh, Kyrgyz, and Tajik battalions.¹² Later it was decided to attach air forces to the CRDF as well as set up similar groups in the Caucasus (Russia-Armenia) and European (Russia-Belarus) sectors.

The terrorist acts of 9/11 stirred up a wave of indignation across the world and drew many states together into the Washington-led counterterrorist coalition. Moscow's support of the United States in its struggle against international terrorism opened a new stage in the relations between the two countries and instigated regional cooperation and rivalry in Central Asia. The counterterrorist operation in Afghanistan brought allied air bases to the region's countries. America's military presence in Uzbekistan, Kyrgyzstan, and Tajikistan strengthened Russia's cooperation with the local countries in the collective security sphere; it also promoted further integration within the CST.

The jubilee CST summit held in May 2002 satisfied the desire of the Central Asian countries to enhance their cooperation with Russia in the form of the Collective Security Treaty Organization (CSTO). Set up officially on 18 September, 2003, this structure was registered with the U.N. in December of the same year; a year later it was given the status of observer at the U.N. General Assembly.¹³ Art 3 of its Charter said: "The purposes of the Organization are to strengthen peace and regional security and stability and to ensure the collective defense of the territorial integrity and sovereignty of the member States, in the attainment of which the member States shall give priority to political measures." Art. 7 of the same document states: "In order to attain the purpose of the Organization, the member States shall take joint measures to organize within its framework an effective collective security system, to establish coalition (regional) groupings of forces and the corresponding administrative bodies and create a military infrastructure to train military staff and specialists for the armed forces, and to furnish the latter with the necessary arms and military technology." The member states see coordination and pooling of efforts to fight international terrorism and extremism, illegal trade in drugs and weapons, as well as other manifestations of transnational or-

¹¹ For the text of the treaty see: A. Kniazev, *Afganskiy konflikt i radikal'nyi islam v Tsentral'noy Azii. Sbornik dokumentov i materialov*, Bishkek, 2001, pp. 25-28.

¹² See: J.H. Saat, "Collective Security Treaty Organization," Conflict Studies Research Center, Published by Defense Academy of the United Kingdom, February 2005, p. 4, available at [<http://www.da.mod.uk/csrc>].

¹³ See: Organizatsia Dogovora o kollektivnoy bezopasnosti poluchila status nabludatelia v General'noy Assamblee, available at [<http://www.un.org/russian/news/fullstorynews.asp?newsID=2960>], 06. 12. 2004.

ganized crime as an important sphere of their cooperation. They are also coordinating their foreign policies in the sphere of international and regional security and taking measures to develop a legal basis in defense and security.

The process of accelerated cooperation within the CST framework gave rise to a wide range of opinions about the new military bloc that appeared in the post-Soviet expanse. Some authors compared it to the Warsaw Treaty Organization and described it as a factor designed to stem NATO's eastward movement.¹⁴ For this reason, President Putin, speaking at the 2002 CST Summit, said that the CSTO would work toward cooperation with other organizations in the sphere of security in the world, and with the U.N. and the U.N. Security Council in particular. He added that the countries that signed the Collective Security Treaty were not uniting against anyone, but against the threats confronting them.¹⁵ The situation, however, speaks of Moscow-Washington rivalry in Central Asia in the security sphere and for influence in this area. Moscow responded to America's temporary military presence in Central Asia with its intention to set up permanent CSTO bases. When Tashkent shifted its foreign policy preferences toward the United States, the Kremlin boosted its efforts to fortify its position in Kyrgyzstan and Tajikistan. Under the Agreement between the Republic of Kyrgyzstan and the Russian Federation on Cooperation in the Security Sphere signed in December 2002 and Art 7 of the Collective Security Treaty signed in September 2003, the Russian Federation set up its air base in Kant (Kyrgyzstan) as part of the CRDF in Central Asia.¹⁶ Moscow's military presence in Tajikistan (2005) was confirmed by the official status of the 201st Russian military base with the right of air support.¹⁷

Russia is promoting integration in the collective security sphere by many means ranging from the right granted to the CSTO members to buy Russian weapons for Russia's domestic prices to training military staff and specialists in Russian military educational establishments. Moscow has also shouldered the main CSTO budget burden—nearly half of its total size.¹⁸

In this way, since 1999 cooperation in the collective security sphere assumed practical outlines of cooperation among the CST members supported by real initiatives and joint efforts. The same can be said about the CIS air defenses set up in 1995. According to CSTO General Secretary Nikolai Bordiuzha, air defenses set up with the active participation of the CST members would be developed within the Organization on the basis of the regional air defense systems according to the principles of pooling forces and assets in the united air space, under a single command, with a single infrastructure, and according to a single plan.¹⁹

Central Asia is living under the constant threat of spreading international terrorism and extremism as well as illegal trade in drugs and weapons—hence the need to ensure the region's collective security. For this reason, the conference of the Council of the CIS Heads of State that met in June 2000 set up the CIS Antiterrorist Center (ATC) with its headquarters in Moscow as a permanent specialized body of the CIS designed to coordinate the efforts of the competent authorities of the countries involved in fighting international terrorism and other manifestations of extremism. From the very first day, the center concentrated on improving cooperation during joint operations designed not only to

¹⁴ See: J.H. Saat, op. cit., p. 8.

¹⁵ "Kollektivnaia oborona podnimaetsia na novyi uroven'," available at [<http://www.navi.kz/articles/445>], 17. 05. 2002.

¹⁶ See: [http://www.ln.mid.ru/va_sob.nsf/0/43256be30031180b43256c87004c5af2?OpenDocument]. Art 7 of the CST says that deployment and functioning of the objects of the collective security system on the territories of member states is regulated by special agreements (see: A. Kniazev, op. cit., p. 26).

¹⁷ See: S. Lavrov, "Rossia-Tajikistan: novyi etap vzaimovygodnogo sotrudnichestva," *Parlamentskaia gazeta* [http://www.ln.mid.ru/brp_4.nsf/0/b7bb356d1cab7d0ac32570c40026956a?OpenDocument].

¹⁸ See: Iu. Semenov, "Inteviu radio Maiak s General'nym sekretarem ODKB Nikolaem Bordiuzhey," available at [<http://www.radiomayak.ru/archive/text?stream=schedules/1&item=9780>].

¹⁹ Interview General'nogo sekretaria ODKB Nikolaia Bordiuzhi gazete *Izvestia*, 21 June, 2005.

stem terrorism and other manifestations of extremism, but also other types of crime that threaten public security.²⁰ The Bishkek Branch set up in August 2001 is engaged in coordinating the CIS antiterrorist activities in Central Asia.

The Shanghai Cooperation Organization

The Shanghai Cooperation Organization (SCO) set up with China's active involvement is another key structure of Russia's multilateral cooperation with the Central Asian countries. It gained weight as the result of many years of cooperation of the Central Asian countries (the Republic of Kazakhstan, the Republic of Tajikistan, and the Kyrgyz Republic) with the Russian Federation and the People's Republic of China within the Shanghai Forum (the Shanghai Five). It was founded in April 1996 when an Agreement on Strengthening Confidence in the Military Sphere in the Border Area were signed in Shanghai (China), which served as the starting point for peaceful settlement of the border issues between Soviet successor states and China.²¹ An Agreement on Mutual Reduction of Armed Forces in the Border Area was signed in April 1997 in Moscow. It formed the cornerstone of the Shanghai Five and opened a new stage in annual meetings of the heads of state mentioned above. The Organization has been developing since 1998; today each of the countries upholds its own viewpoint at the talks, while cooperation has developed much further to embrace regional security and economic issues, which further enhanced cooperation among the members.²² In 2000, Uzbekistan was given the status of observer, which demonstrated that the Shanghai Forum had become an inalienable part of regional cooperation. Aware of the urgent need for structural changes, the heads of the member states and Uzbekistan officially founded the Shanghai Cooperation Organization at their meeting in Shanghai on 15 June, 2001. The Declaration on Establishment of the SCO described the new organization's priority aims as follows: stronger mutual confidence, friendship, and good-neighborly relations among the member states; encouragement of efficient cooperation among them in the political, trade, economic, scientific and technological, cultural, educational, energy, transport, environmental, and other spheres; and joint efforts to maintain peace, security, and stability in the region and to build a new democratic, fair, and rationally organized political and economic international order. The SCO concentrates on regional security and is doing its best to ensure it. The member states will be working hard to carry out the propositions of the Shanghai Convention on Combating Terrorism, Separatism, and Extremism, in particular by setting up a Regional Antiterrorist Structure with its headquarters in Bishkek. The members will elaborate all the relevant multilateral documents on cooperation to effectively combat illegal trade in arms and drugs, illegal migration, and other types of crime.²³ The summit signed a Shanghai Convention on Combating Terrorism, Separatism, and Extremism, which set forth the SCO's priorities. For the purposes of the Convention, the document supplied interpretations of the conceptions of terrorism, extremism and separatism and outlined in detail the sides' means and methods of cooper-

²⁰ See: A. Tikhonov, "Tsentri Antiterrora," *Krasnaia zvezda*, available at [http://www.redstar.ru/2005/06/21_06/1_01.html], 21 August 2005.

²¹ The border disputes with China along the Russian stretch were mainly settled under Mikhail Gorbachev. In post-Soviet times, border issues remained unsettled mainly along the Central Asian stretch of the former Soviet-Chinese border. Russia, Kazakhstan, Kyrgyzstan, and Tajikistan acted together at the negotiations with China.

²² For more detail, see: Zh. Huasheng, *Kitai, Tsentral'naia Azia i Shankhaiskaia organizatsia sotrudnichestva*, Moscow Carnegie Center, Moscow, 2005, pp. 5-6.

²³ See: The Declaration on the Establishment of the SCO, available at [<http://www.cvi.kz/old/text/SHOS/Shanhay.html>].

ation designed to uproot these three evils. The terrorist acts and armed clashes with the Islamic Movement of Uzbekistan militants in Uzbekistan and Kyrgyzstan in the summer of 1999 and 2000 showed that the threat of spreading terrorism and extremism was very real indeed for the Central Asian countries and China (the Xinjiang-Uighur Autonomous Region), as well as Russia. This made regional security and an antiterrorist structure designed to combat terrorism, extremism, and separatism two major priorities on which the cooperating countries pinned their hopes.

The events of 9/11 and the counterterrorist operation of the United States in Afghanistan that brought America's military presence to the region and its closer relations with the local states in the security sphere questioned the expediency of integration within the SCO. In June 2002, at the St. Petersburg summit, after a short period of indecision the SCO members signed another basic document—the SCO Charter—as well as an agreement between the SCO members on the Regional Antiterrorist Structure (RATS). This confirmed that the members intended to cooperate and interact within the SCO.²⁴ The Executive Committee, which began operating in 2003 in Shanghai, and the opening of the RATS center in Tashkent in 2004 completed the period of structural changes, thus demonstrating that the Organization had not lost its importance.

There is the opinion that the SCO with two strong leaders (Russia and China) was spearheaded against America's spreading hegemony and was prompted by Washington's stronger influence in Central Asia, part of the Heartland described by Mackinder in his geopolitical theory.²⁵ This is not quite true: other members have either fairly good or even strategic relations with the United States. The Declaration on the Establishment of the SCO and the SCO Charter as its basic document say: "The SCO adheres to the principle of non-alignment, is not targeted at any other country or region, and is open to the outside world. It is ready to develop various forms of dialog, exchanges, and cooperation with other countries and international and regional organizations."

We should admit, however, that the creation of the Shanghai Five and its later transformation into the SCO coincided with a time of cooling in the relations between Russia and China, on the one side, and the West, the U.S. in particular, on the other.²⁶ Recently, the SCO has been openly criticizing Washington: the 2003 summit (without Uzbekistan) adopted a Statement of the Heads of State condemning the American invasion of Iraq. In July 2005, in Astana, the heads of six member states issued a statement that insisted on the exact date by which the NATO military contingents should be withdrawn from Central Asia.²⁷

An analysis of the states' real intentions within the SOC should dwell on the policies Russia and China are pursuing toward the region's countries. The Beijing leadership, for example, is fully aware that cooperation with the Central Asian countries within the SCO creates favorable economic and trade conditions supported by the region's economic potential; the same can be said of their cooperation in the security sphere, which contributes to stemming extremism, separatism, and terrorism in Eastern Turkestan (the Xinjiang Province). By creating increasingly favorable conditions for broader cooperation with the Central Asian states, China is building up its influence in the region. Russia is relying on bilateral relations with the Central Asian countries and other integration structures (the CIS and CSTO) to develop closer relations with the local countries. The SCO, therefore, is not regarded as the starting point of its influence in the region: it merely creates additional conditions and possibilities for

²⁴ See: "Podpisana Khartia ShOS," available at [<http://www.dni.ru/news/russia/2002/6/7/10556.html>], 7 June 2002.

²⁵ When deliberating on Mackinder's geopolitical theory, Zbigniew Brzezinski pointed out that Washington should exercise stronger control in the Heartland or even increase its influence in it to preserve its world domination. This served as the theoretical starting point of the new American policies (see: D. Gordon, "The Hegemonic Imperative: on The Grand Chessboard: American Primacy and its Geostrategic Imperatives by Zbigniew Brzezinski," *The Mises Review*, Winter 1998, available at [http://www.mises.org/misesreview_detail.asp?control=115]).

²⁶ For more detail, see: Zh. Huasheng, op. cit., pp. 8-9.

²⁷ See: "Strany ShOS staviat vopros o date vyvoda voennykh baz Antiterroristicheskoy koalitsii iz Tsentral'noy Azii," available at [<http://www.akipress.org/>], 06. 07. 2005.

multilateral cooperation, stronger security with China's help, and coordination of the member states' foreign policies. The Russia-China strategic partnership is one of the SCO's driving forces, but the strategic partners are also seen as rivals. Thus, the SCO helps Russia to control China and limit its activities in Central Asia.²⁸

* * *

By way of summing up Russia's policies in Central Asia, we can say that Moscow has scored several points in developing its strategic partnership with the local states and gained a stronger position than its main rivals. This was achieved thanks to the Russian leaders' new, more constructive approach to the regional security issue based on bilateral and multilateral ties, as well as a more cautious policy than that pursued in the Southern Caucasus. In fact, the pressure tactics Moscow employed in the Southern Caucasus cost it its relations with Baku and Tbilisi and its military strategic presence in Georgia.

The lessons have been learned: since 1999, the Russian leaders have been moving toward a collective security system in Central Asia, while underpinning Russia's bilateral relations with a legal basis of multilateral cooperation within the CIS and CSTO and promoting the SCO as another regional cooperation structure. The events of 9/11 and the deployment of NATO military bases in Central Asia forced Russia to invigorate its security policies in the region and speed up integration within the CSTO and SCO. Russia's foreign policy aimed at strengthening and developing its mutually advantageous cooperation with the Central Asian countries proved successful despite the alternatives the West and the United States offered to the local countries. This is largely explained by the tolerance Moscow displayed toward the ruling Central Asian regimes, as well as by its non-interference in the local countries' domestic affairs. Moscow has revised its foreign policy principles within the CIS and opted for "friendly and stable neighbors." In December 2004, at the height of the "velvet revolutions," President Putin made public the new foreign policy principles applied to the CIS: "We shall accept the choice of any nation in the post-Soviet expanse as absolutely adequate and shall cooperate with any elected leader."²⁹ Moscow confirmed this during the events of March 2005 in Kyrgyzstan when the Russian leadership preferred to keep away from helping Akaev's regime, limited itself to granting him political asylum, and started working with the country's new leaders.³⁰ In May 2005, when the cruel suppression of the Andijan revolt by the Uzbekistan leaders stirred up a lot of criticism in the West, the United States in particular, Russia supported President Karimov by presenting the revolt as an aborted extremist coup staged by Islamic radical forces. Despite Tashkent's previous attempts to move away from Russia, the Russian leaders demonstrated that they were prepared to support and develop good-neighborly relations and strategic partnership between the two countries as a matter of principle.

²⁸ See: Zh. Huasheng, op. cit., p. 15.

²⁹ B. Rashidov, "Russia in Central Asia: A Shift to Positive Foreign Policies," *Central Asia and the Caucasus*, No. 2 (32), 2005, p. 113.

³⁰ Some Russian political circles were convinced that Moscow should have interfered to stop the Tulip Revolution, but were not supported by the RF government (see: "Rossiiskie politiki kommentiruiut situatsiiu v Kirgizii," available at [<http://www.akipress.org/>], 24 March 2005).

LIVING CONDITIONS, INTRA-SOCIETAL TRUST, AND PUBLIC CONCERNS IN POST-SOCIALIST TURKMENISTAN

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

Turkmenistan's important role in the regional and world economy, in its post-independence period, is cemented by its large reserves of oil, gas, and other energy resources.¹ Yet there is little evidence that this economic potential and the enormous revenues materialized in the population's improved well-being. Although Turkmenistan is considered to be a lower middle level income country, little progress, if any, has been recorded from the time of its independence, especially in the areas of political and social reform. Its political development is shadowed by the one-man rule of President-for-Life Saparmurat Niyazov, who claims to be the father of the nation.² Consequently, no area of social life is beyond the president's reach. A wide range of pres-

idential orders prohibited smoking, closed rural hospitals,³ renamed the months of the year after the President and his relatives, shortened the educational period,⁴ introduced the President's own book into the education curriculum, and prohibited long hair, beards, and car radios.⁵ There is also a prohibition on opera and ballet because the President considered them to be inappropriate for Turkmen culture.

¹ Local officials claim that the economy is growing in two digit figures of 17-23% per year. According to the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD), Turkmenistan's growth rates are estimated at 10-11%, while The Economist Intelligence Unit estimated the growth in 2003 as 13% and 11% in the first half of 2004 (see: N. Badykova, "Regional Cooperation for Human Development and Human Security in Central Asia" ("Regional Cooperation"), in: *Country Background Studies, Turkmenistan*, Washington DC, 2005, p. 7.

² See: M. Lelyveld, "Turkmenistan: Niyazov Becomes CIS's First 'President for Life'," *Radio Free Europe*, 30 December, 1999, available at [www.rferl.org/features/1999/12/F.RU.99130165913.html].

³ When, in 1997, the President had to quit smoking due to a heart operation, all public places were ordered to prohibit smoking. When he was operated on for an eye disease by foreign doctors, he ordered for hospitals to be strengthened by closing those in rural areas and relocating the funds to the capital's hospitals. The President's argument was that rural residents travel to the capital city to receive treatment anyway. For details see: "Turkmenistan Shuts Hospitals," *SBS—The World News*, 2 March, 2005, available at [www9.sbs.com.au], 9 February, 2006; M. Whitlock, "Turkmen Leader Closes Hospitals," *BBC News*, 1 March, 2005, available at [www.news.bbc.co.uk/go/pr/fr/-/2/hi/asia-pacific/4307583.stm], 9 February, 2006.

⁴ See: "OBSE predosteregaet Ashkhabat ot ekspirementov v obrazovanii," *Reuters*, 21 April, 2005, available at [www.centrasia.ru]; for more on the book on the life of President Niyazov's mother, see: "Geroi Turkmenistana Gurbansoltan edzhe i zhenshchiny zolotoi epokhi velikogo Saparmurata Turkmenbashi," *Neitral'nyi Turkmenistan*, No. 22, 25 January, 2006, available at [www.gundogar.org.doc_files/8938488751456289.doc.gz].

⁵ See: M. Whitlock, "Young Turkmen Face Beard Ban," *BBC News*, available at [www.news.bbc.uk/go/pr/fr/-/2/hi/asia-pacific/3486776.stm].

Largely due to these features of its governance and development, Turkmenistan remains one of the most closed countries in the world. Little is known about how ordinary citizens regard the changes going on in Turkmenistan over the last decades and even less is known about how they deal with their challenges, concerns, and needs.

Therefore, this paper focuses on the everyday lives of ordinary citizens in Turkmenistan, attempting to demonstrate the population's views on their post-Soviet living conditions and how the changes in society have influenced people's value systems and their interrelations with each other. In order to do so, this paper attempts to answer the following sets of questions: what are people's views about their lives and their

present living conditions in post-Soviet Turkmenistan? What are the patterns of inter-personal trust and public confidence in its society? What do people value and appreciate in their private lives? What are their concerns, aspirations, and views on their present and the future? In terms of governance, this paper will only partly touch upon this issue, concentrating on people's concerns and satisfaction with different aspects of their lives and leaving the political aspects for a separate analysis.

Methodologically, this paper is based on a public survey conducted in Turkmenistan for the AsiaBarometer (AB) project (University of Tokyo and University of Chuo) in the fall of 2005 within a larger study of Asian lifestyles and values.

Notes on Methodology

The AB survey in Turkmenistan was conducted by a local polling agency and consisted of face-to-face interviews with 800 randomly selected respondents in age groups between 20 and 60 years and divided into 6 sections in keeping with the country's administrative divisions: the city of Ashgabad and 5 velaiats (oblasts)—the Akhal, Balkhan, Dashogouz, Lebap, and Marhysky velaiats.

The views of the Turkmen population on various aspects of their lives are influenced by a range of factors, including their personal experiences, social status, income, ethnic and religious affiliations, as well as age. However, the poll revealed common features in the answers of the respondents in Turkmenistan, according to which the number of "do not know" replies was incredibly high. The general trend in "do not know" responses increased proportionally to the sensitivity of the issue. For instance, in non-political questions like those on the availability of utilities at home (0%), access to the Internet (0.5%), water pollution (4.5%), air pollution (5.1%), travel abroad (6.4%), and soil pollution (8.4%), the number of those who replied "do not know" was less than one tenth. Such "do not know" responses increased when respondents were asked about their happiness with life (8.9%), marriage satisfaction (11.6%), satisfaction with their standard of living (19.1%), satisfaction with their job (26%), and household income (27%). But the most dramatic increase in "do not know" answers was registered when respondents were asked politically sensitive questions related to their satisfaction with the right to gather and demonstrate (64.4%), to be informed about the work of the government (59.8%), to participate in any kind of organization (53.8%), and freedom of speech (55.1%).

The same answer was frequently chosen by respondents in response to questions on the pride they felt for their country (46.3% replied "do not know"), satisfaction with the democratic system (43.8%) in the country, and with the quality of public services (41.3%). In the same manner, questions requiring an evaluation of personal trust in the central government (36.4%), local government (28.8%), army (28.9%), legal system (30%), parliament (30.5%), and political party (89.4%) registered a very high degree of "do not know" answers. Some of them might indeed reflect the respondents' lack of

knowledge with respect to a particular aspect of their lives, or lack of confidence in their own knowledge to make a judgment about those issues. However, most of these responses can be explained by the closed social, economic, and political environment, which puts additional (and perhaps sometimes self-imposed) pressure on the respondents to choose the safe “do not know” response in order to avoid complications with the authorities. Despite the fact that these biases might have occurred while the respondents’ answers were being gathered, they all reflect the political, economic, and social background of present-day Turkmenistan.

1. Basic Living Conditions of the Post-Socialist Period

1.1. Living Standards

In the post-Soviet period, Turkmenistan had to overcome the same difficulties of the transition period as the other states of the former U.S.S.R. Turkmenistan’s relatively small and young population and its large energy resources enabled its government to control the political, economic, and social spheres of life and maintain its grip over society. The government of Turkmenistan essentially did not alter the old system of governance, under which the government provided for the needs of the people and the people were expected to follow the initiatives of the government. In addition, as in other republics, Turkmenistan inherited the basic social infrastructure built during the Soviet era and managed to provide its people with the basic communal services. In particular, the absolute majority (98.8% and 98.9%, respectively) of those polled indicated that they are provided with electricity and LPG gas. However, because of its unfriendly climatic and geographic conditions, Turkmenistan, even under the Soviet government, experienced problems with drinking water supply. Almost half of its territory is covered with desert, making life in these areas almost impossible. This is perhaps the reason why only two fifths (39.1%) of the respondents said that they have public water supply. The provision of the population with fixed phone lines is also limited, with less than one third (27.4%) of those polled implying that they have fixed phone lines.

It should be noted that the Turkmen population is supplied with public water, gas, electricity, and salt free of charge. This free supply was declared in a decree issued by President Niyazov in 1992 as a part of the “adequate measures of social protection policy in the transition period.”⁶ In August 2003, during the XIV Congress of Peoples (*XIV Halq Maslakhaty*), such free provision of communal services and goods was further extended to the year 2020.⁷ President Niyazov explains this free supply of four products as a way to maintain the population’s standard of living and share the enormous revenues from gas and oil with the people. However, this is largely a populist gesture. Shortages in the provision of these services (electricity, gas, and water cuts) are becoming increasingly frequent due to the aging infrastructure and the government’s overall attempt to limit the domestic consumption (of energy resources) to increase exports.⁸ The same problems and temporary cuts can be observed in the centralized heating system.⁹ Access to these services in rural areas is limited and supply cuts are even more frequent.

⁶ “The Key Priority—the People’s Needs,” *State Information Agency of Turkmenistan*, 1 January, 2006, available at [www.turkmenistan.gov.tm].

⁷ *Ibidem*.

⁸ See: V. Volkov, O. Saryev, “Turkmenbashi ekonomit gaz,” *Deutsche Welle*, 29 January, 2006, available at [www.dw-world.de].

⁹ See: “Nastuplenie kholodov vyvavilo ser’yozyne problemy v otopitel’noi sisteme Turkmenii,” *Nemetskaia Volna*, 24 January, 2005.

As for communication means, those with mobile phones made up less than one tenth (7.5%) of the respondents. This low number of mobile phones among the respondents is difficult to interpret without more detailed information about the situation on the mobile phone market in Turkmenistan. According to some business sources, Barash Communications, which is the mobile phone operator covering all regions of Turkmenistan, there are around 59,100 registered subscribers in the country.¹⁰ The largest number of those respondents using mobile phones in the AB survey is found among people in their fifties (9.2%), followed by respondents in their sixties (8.5%), twenties (7.6%), thirties (7.3%), and forties (6.4%).

Another tool of communication—the Internet—is not widely used in Turkmenistan. Only a very small group of people suggested that they use the Internet almost daily (0.5%), several times a week (1.4%), several times a month (3.3%), and seldom (4.1%). Most of the respondents (90%) suggested that they never use it. Some news sources indicate that there are only 300 private Internet users in Turkmenistan.¹¹ Undoubtedly, there are two reasons for such a low Internet usage rate. The first reason is its high cost, while the more significant and important one is government control and the consequent lack of free access to the Internet. In addition to the grave situation with the Internet, the Ministry of Communications of Turkmenistan refused to accept license applications from international postal services, such as DHL, FedEx, and ASE, further limiting the opportunities of people to link with foreign countries and exchange information.¹²

1.2. Income and Purchasing Power of the Population

The effects of the transition period on people's living conditions can also be traced through an analysis of incomes and personal purchasing power in Turkmenistan. While government revenues from oil and gas exports have been increasing over the years, personal incomes remain at a low level. For instance, the respondents' answers to questions about annual household incomes were divided into several groups. A large group of respondents (17.9%) said that their income was around 16 to 20 million manat. Approximately the same number of respondents (17.3%) indicated a sum of 31-35 million manat. The third (13.8%) and fourth (13.4%) most popular responses were 11-15 million manat and 16-30 million manat, respectively. Defining the real value of these sums or even their U.S. dollar equivalent is a challenging task due to the ambiguity of the exchange rate policy in Turkmenistan. There are two exchange rates in Turkmenistan, and the difference between the official exchange rate defined by the Central Bank (around 5,200 manat per 1 U.S.\$) and the "unofficial" black market rate can be four-fold higher than official rate or even more (one figure is around 21 thousand manat per 1 U.S.\$).

In a related question, where respondents were asked how many people in the household earn money, the most popular answer was two (62.8%), followed by one quarter (24.4%) of respondents in whose family only one person earns money. Only slightly more than one tenth of the respondents indicated that there were more than two breadwinners in their family (9.9%—three breadwinners, and 3%—four breadwinners). At the same time, the number of those who suggested that their family consisted of 5 people constituted one third (31.4%), with another third (30.6%) replying that their household consisted of three members. One fifth of the respondents (20.8%) replied that their household

¹⁰ See: "Sources Says MTS' Mobile License in Turkmenistan Extended," 7 November, 2005, available at www.cellular-news.com/coverage/turkmenistan.php.

¹¹ See: E. Liubarskaia, "1/6 chast' sushi: Mnogaya leta velikomu Turkmenbashi," *Lenta.Ru*, 11 April, 2005.

¹² See: "Minsvyazi Turkmenii otkazalo v litsenzii pochtovym sluzhbam DHL, FedEx, ASE," *Reuters*, 11 April, 2005.

consisted of four members. And only slightly more than one tenth (11.9%) of the respondents answered that their household consists of two members.

From the responses about the number of breadwinners in the household and the number of household members, we can hypothetically assume that for Turkmen society, where the number of household members is traditionally large, this indicator for the number of household breadwinners is relatively low. It also goes without saying that under Turkmenistan conditions, where salaries rarely meet people's real needs, even two breadwinners can hardly provide for the needs of the entire family.

This is partly reflected in the purchasing preferences of the respondents. When the respondents were asked if their choice of purchase is based on the quality of the product or its price, around one third (30%) answered that their choice is "somewhat closer to buying the cheaper product" as opposed to slightly more than one tenth (12%) who said that their choice is in favor of buying "high-quality products even if they are a little more expensive."

Low incomes, the decrease in personal purchasing power, and the generally complicated economic situation certainly affect not only the population's well-being, but also people's attitude toward each other.

2. Intra-Societal Trust and Values

2.1. Intra-Societal Trust

When considering people's attitude toward each other, the first dimension in focus is intra-societal trust. When asked about general trust toward other people, most (55%) respondents in Turkmenistan replied by indicating their belief that one can never be too careful when dealing with people. Only slightly less than one third (32.3%) responded that people can generally be trusted.

In a separate question on whether the respondents think that people generally try to be helpful, most replied that they thought people mostly look out for themselves (54.9%), with slightly more than a third (34.8%) thinking that people try to be helpful.

And when asked if they stop on the street to help when they see someone in need of help, most respondents said that they would help only if no one else did (51.1%), followed by one third who suggested they would always stop to help (33.9%). There was also a limited group of respondents (6.6%) who said they would not stop under any circumstances.

Such responses to the three questions above indicate people's weakening attachment to one another in society. This also contrasts to the situation in Soviet society when altruism and unconditionally helping others was a norm not enforced from above, but followed by the majority. Perhaps the conditionality of helping others indicated in answers of the respondents in Turkmenistan can be linked to a larger sense of insecurity about the declining standard of living described above. At the same time, while intra-societal trust is weak in society, people are still willing to help each other, although such help is strictly conditional upon the particular situation and other factors. To a great extent, the change in trust patterns in Turkmen society is both the result and cause of people's changing value systems. Under the pressure of post-Soviet challenges, they are reconsidering the old beliefs and public norms they used to adhere to. In many instances, the new value system being formed in Turkmenistan is to a certain extent more rational and self-centered than the previous one, which emphasized mutual help and altruist ideals.

2.2. Changing Value System

The post-socialist value system in Turkmenistan has undergone a complex transformation process. In addition to the intra-societal trust mentioned above, this is further reflected in the respondents' answers to questions about the important social aspects in their lives, on how they want to see their children grow, what qualities they expect their children to have, and the role of women in society.

The basis of social life in Turkmenistan is the family, which plays the role of the central institution in society. When respondents were asked a question (with multiple answers) about which social institutions they considered important, the majority replied the family (78.2%) and relatives (62.6%). A small group of respondents replied "the area they grew up" (6.3%), followed by the neighborhood (3.9%) as socially important circles or groups for them. Interestingly, while respondents' choices of important social institutions coincided with the choices of respondents in other Central Asian countries, the ratings of each social circle is relatively low compared with the rating of these institutions in other neighboring countries. In comparison to other Central Asian countries, the importance of the family in Turkmenistan is relatively low (see Table 1).

The same can be said about the choices of respondents with respect to relatives. Other than these two responses, the other responses were chosen by a very limited number of those polled, indicating the role of those institutions in the lives of the Turkmen population.

In a separate, but related question on the most important (single answer) social institution, again we can see that while the number of those respondents who selected the family (55.1%) was more than half of those polled, this figure is incomparably lower than the number of people choosing the same answer in other Central Asian countries. On the contrary, the number of respondents who chose rela-

Table 1

Q. 20-1: Which of the Following Social Circles or Groups are Important to You? (%)

	Total	Family	Relatives	Place of work	Area where you grew up	People whose language is the same	Neighborhood	Agricultural cooperative	Religion	Don't know
Kazakhstan	800	95.1	85.1	42.4	36,5	12.3	28.6	1.0	9.4	0.5
Kyrgyzstan	800	97.9	83.1	35.1	50,3	10.3	41.4	3.6	22.8	—
Tajikistan	800	99.7	87.4	41.2	34,4	13.0	17.2	0.7	23.6	—
Turkmenistan	800	78.9	62.6	3.6	6,3	3.5	3.9	—	1.4	3.6
Uzbekistan	800	98.4	80.0	59.3	41,4	16.8	39.5	1.8	27.8	0.1

Source: AsiaBarometer Survey 2005.

Table 2

**Q. 20-2: Which One of the Following Social Circles
or Groups is the Most Important to You?**

	Total	Family	Relatives	Place of work	Area where you grew up	People whose language is the same	Neighborhood	Religion	Don't know
Kazakhstan	800	85.3	7.8	2.1	1.3	0.1	0.3	1.0	1.4
Kyrgyzstan	800	90.4	4.0	1.3	1.5	0.3	1.0	0.9	0.3
Tajikistan	800	84.6	6.5	4.3	0.1	—	—	4.0	—
Turkmenistan	800	55.1	25.9	1.5	5.8	3.3	3.3	1.4	3.9
Uzbekistan	800	92.6	1.9	1.6	0.9	0.3	—	2.1	0.3

Source: AsiaBarometer Survey 2005.

tives as their most important support group is one fourth (25.9%) of all the respondents and is the highest score for this choice among all the CA countries. It might be that many respondents in Turkmenistan do not draw a very clear line between the notions of small family circle and the larger extended family. This might have led to a free interpretation of these two notions in the survey. Therefore, for some, relatives are a part of the family, increasing the rating of relatives in the general list of possible answers.

At the same time, in many rural settings, the family is not just a form of socialization in Turkmenistan, but also a shock-absorbing institution which consolidates members of the family in their attempt to provide for their physical and moral needs (see Table 2).

The choice of respondents of important social institutions in Turkmenistan indicate that the social life of people in Turkmen society is still centered around the family. With more economic problems in the country, people are increasingly seeing the family as the social unit that helps them to overcome their difficulties. It is often the family (including the extended one) that consolidates people and absorbs the social and economic shocks at times when people need psychological support and financial assistance. Most often cited are funerals, marriages, and other occasions in which one family is incapable of dealing with a particular problem on its own.

Traditionally, the highest priority in Turkmen families is bringing up children. Therefore, it is interesting to see how people in Turkmenistan see their children's future. When asked about their vision of their children's future, parents' views were clearly divided into the future they would prefer for their sons and the one they would prefer for their daughters. In their responses for daughters, most respondents chose "finding a good marriage partner" (54%), which is quite typical not only of Turkmen, but of all post-Soviet Central Asian societies. Traditionally, daughters in Turkmenistan leave their parents' house and go to live with their husband's family after marriage. Therefore, the daugh-

ter's future is largely related to a good marriage partner and his family. Thus, the concern for a daughter's future is rarely expressed by the parents' wish for her to "become a good professional," but more related to "becoming a caring mother for her family" (19.6% of respondents). As a recent feature, we can see that some parents emphasize being wealthy as one of the important wishes for their daughters, mainly due to the economic difficulties in the country. In addition, parents in Turkmenistan tend to think that quarrels between husband and wife in many families are frequently related to family's economic well-being. For them, families that are better off in financial terms have more potential for being happy. Therefore, the wealth of the bride or bridegroom plays an important role for many parents in their choice of partners for their children. Interestingly, in the gender composition of respondents, the number of female respondents (55.5%) is larger than the number of male respondents (52.4%) who

Table 3

Q.9: How Would You Like to See Your Son(s) and Your Daughter(s) Grow Up?

(Of the following accomplishments, please select two that you would wish for a daughter, and two that you would wish for a son.

M stands for mothers' view and F stands for fathers' preferences)

	For Sons	For Sons		For Daughters	For daughters	
		M	F		M	F
Become a great scholar	4.3	4.3	4.2	—	—	—
Powerful political leader	8.4	8.7	8.1	—	—	—
Become very wealthy	55.6	56.2	55	19.3	21.4	17.2
Loving and charitable person	5	4.1	5.9	7.1	6.9	7.4
Person respected by the masses	6.9	7.1	6.6	2.6	2.5	2.7
More skilled in profession	3.1	2.8	3.4	1.6	1.8	1.5
Follow in my footsteps	4	4.6	3.4	1.3	1.5	1.0
Who cares about the family	4.8	4.6	4.9	19.6	19.3	19.9
Find a good marriage partner	27.1	29.3	25.1	54	52.4	55.5
Become fulfilled spiritually	0.1	0.3	0	0.6	0.8	0.5

Source: AsiaBarometer Survey 2005.

hope their daughters will find a good marriage partner. This indicates that although in many cases Turkmen parents might be inclined to think that their daughters need a better education or employment, marriage and their role as prospective mothers comes first.

The wishes of parents for their sons differ significantly from those for their daughters. For instance, more than half of those polled (55.6%) indicated that they would like their sons to become wealthy people, followed by finding a good marriage partner (27.1%). The logic behind the choices for children mentioned above is that sons are attributed different social functions and roles than daughters. Therefore, parents generally expect their sons to become the breadwinners for their families, while daughters are usually expected to care for the family at home. Although this does not imply that parents do not expect their daughters to work, but to stay at home most of the time, sons are attributed public roles, while daughters are usually expected to play less public and more private roles within the family.

While this division between the roles of sons and daughters was always present in Turkmenistan, even during the Soviet years, this trend strengthened after Turkmenistan gained its independence mainly due to the country's economic problems, as well as to the return to traditionalism, which also partly advocates such division.

It should be said however that the level of involvement of women in social life in Turkmenistan is still high. The government makes a certain attempt to promote the employment of women and to no extent does it authorize discrimination based on the gender. In a related question, when asked about gender discrimination, one quarter (25.6%) replied that men and women are treated equally. At the same time, reflecting on the traditionalism of Turkmen society, around one fifth (18.9%) responded that men are treated much more favorably than women, while another quarter (23.4%) replied that men are somewhat more favorably treated than women. Slightly more than one tenth of the respondents replied that women are treated somewhat more favorably (13.8%) and that women are treated much more favorably (13.4%). Naturally, in all these responses, men consider women to be treated more favorably, while women consider men to be more privileged.

In some sense, the answers above indicate that society in Turkmenistan can be considered conservative. This can further be traced through the answers of the respondents to the following questions. When asked about what qualities children should be encouraged to learn at home, the most popular answer was respect for elders (46.9%), followed by independence (37%), honesty (30.3%), diligence (18.9%), sincerity (13.9%), humbleness (13.1%), and patience (13.1%). While the last few answers are probably the same for all societies, overwhelming respect for elders, as well as the emphasis of humbleness and patience are very symbolic of society in Turkmenistan.

When asked to rate whether homosexuality can be justified (from 1 <never justified> to 10 <always justified>), the absolute majority (80.9%) selected <1>, indicating that homosexuality can never be justified, followed by slightly less than one fifth (19%) who gave "do not know" answers. In a similar manner, when asked whether abortion can be justified, the absolute majority (66.8%) selected <1>, indicating that abortion can never be justified, while a small portion selected <10> (5.4%), suggesting that abortion is always justified and a few selected <6> (4.8%), which can be considered closer to justifying abortion. Again, around one quarter (23%) replied with "do not know," possibly revealing the uncertainty among the respondents about their response or reluctance to respond to this question.

3. Public Satisfactions, Frustrations, and Concerns

As indicated above, the main sources of satisfaction of people in Turkmenistan are marriage, personal life, the family, neighbors, and friends, while the material side of life was considered to be

less satisfying. For instance, when asked about satisfaction in their lives, the majority indicated that they are either very satisfied, or somewhat satisfied with their neighbors (55.1% and 28.1%), friends (39.9% and 35.5%), marriage (54.5% and 19.5%), family life (40.9% and 25%), spiritual life (46.1% and 17.8%), and leisure (33.9% and 22.1%, respectively).

In stark contrast to the overall satisfaction about their social life, most of the respondents expressed little satisfaction with those aspects of their lives which involved their views on the democratic system (19.6% very satisfied and 26.3% somewhat satisfied), social welfare (14.1% and 16.1%, respectively), their job (12.5% and 18.1%), health (23.9% and 16.4%), household income (20.9% and 6%), standard of living (33.4% and 6.8%), housing (12.3% and 19.5%), and the condition of environment (13.3% and 32%). The views of people regarding these aspects largely reflect the difficult time people are having during the transition period, both in economic terms and in terms of the political environment in the country. This conclusion is further proven by the fact that the number of those who said they are very dissatisfied or somewhat dissatisfied is the highest with respect to household income (32.3% and 8.3%), housing (14.6% and 24%), standard of living (6.3% and 25.3%), their job (12% and 13.4%), and social welfare (10.9% and 8.8%, respectively). Among the "neither satisfied nor dissatisfied" responses, the condition of the environment (32.5%) was followed by housing (23.5%), social welfare (21.8%), and their job (17.3%).

Naturally, the major concerns of people in Turkmenistan emanate from their dissatisfaction regarding their economic well-being. They are also mainly focused on economic hardships and the problems of everyday life to which people are subjected as a consequence of the economic transition. When asked about their worries, given multiple choice answers, the highest ranking concern was health (37.4%), followed by unemployment (22.1%), illegal drugs (20.8%), education (19.3%), poverty (18.5%), the social welfare system (16.6%), corruption (16%), the environment (14.5%), economic problems (14.4%), fair world trade (14%), and economic inequality in society (13.4%).

At the same time, these concerns are closely linked to the issues of governance in the country and public expectations regarding their government. For instance, when asked about the policies on which the government should spend more (spend much more and spend more), the respondents emphasized education (61% and 11.6%), health (53.1% and 17.3%), old-age pensions (28.4% and 21.4%), public transport and telecommunications (30.4% and 12.1%), improvement of the social status of women (33.4% and 12%, respectively), and the environment. Among the expenditures which, according to the respondents, should remain the same, military and defense spending (50.9%) ranked the highest, followed by policing and law enforcement (42.3%). Obviously, people are more concerned about their social and economic status than about security issues. In proof of this conclusion, 49.6% indicated fighting inflation as a primary concern. The respondents suggested maintaining order (47.3%) only as the second most important concern, clearly giving economic development higher priority.

Concluding remarks

The analysis of post-Soviet Turkmenistan in this paper reveals that Turkmenistan, among the other post-Soviet countries, is undergoing a complex transition process. It can be asserted with a great degree of certainty that political and economic reforms in the country are at the initial stage. Consequently, the nature of relations between the government and the people has not changed much. On the one hand, there are strong public expectations of the government in terms of providing for their well-being and economic needs. On the other hand, people's expectations of the government in economic terms far exceed the government's ability and willingness to deal with the challenges of post-Soviet development.

As an alternative to the government welfare programs, many people are increasingly turning to the traditional social institutions, such as the family, which help them to provide for their families and survive the economic difficulties of the transition period. This was clearly indicated in the strong attachment of respondents to their family and relatives and also in their wishes for their children. Stronger ties within the family and among relatives are being established in light of weakening public trust and the higher sense of economic insecurity among the population. This insecurity is clearly demonstrated by people's concerns about their standard of living, health, and other social needs.

Consequently, this symbolizes a change in the value system from the socialist society model in which public interests and the common good were pursued and respected to a value system in which people increasingly favor private interests and the interests of their family and close relatives.

THE RUSSIAN VECTOR IN TURKMENISTAN'S FOREIGN POLICY

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By keeping away from practically all mechanisms of regional integration and cooperation, Turkmenistan stands apart from its Central Asian neighbors. One of the CIS founding members, it gradually reduced its involvement in the Commonwealth to purely nominal: nowadays the CIS is regarded as a structure that passes general non-obligatory decisions, while the U.N. is declared to be the republic's priority for ideological reasons. At the same time, the very specific nature of Turkmenistan's ruling regime is keeping the world community away from the country's domestic affairs. For the same reason,

Turkmenistan refused to grasp the opportunity offered by the events of 9/11, which riveted the world's attention on the region, to extend its ties with the West, something that other Central Asian countries did not miss. On the whole, Turkmenistan can be described as a closed country devoid of any geopolitical ambitions, opting for voluntary self-isolation. Inside the country, this is described as "positive neutrality."

The constitutional Law on Turkmenistan's Permanent Neutrality of 27 December, 1995 serves as the legal cornerstone of the country's foreign policy. It describes Turkmenistan's Con-

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stitution, rights, and obligations as those of a neutral state. In the military-political sphere, in particular, it is expected to pursue a peace-loving foreign policy based on the principles of equality, mutual respect, and non-interference in the domestic affairs of other states and keep away from military blocs, unions, and inter-state alliances that impose strict functions on or presuppose collective responsibility of its members. Under the law, the republic pledges not to start wars and armed conflicts, not to take part in them (self-defense being the only exception), and not to do anything that might provoke a war or a conflict. The country does not allow other states to set up military bases on its territory or use its territory for military purposes, nor does it possess, produce, or take part in the proliferation of weapons of mass destruction. In the economic sphere, the republic is expected to develop international mutually advantageous economic cooperation on the basis of equality and with due account of the interests of all the sides involved; to keep open its financial-economic expanse; and to avoid economic pressure as a political tool (the "open doors" strategy is a foreign economic component of the "positive neutrality" conception). Finally, in the humanitarian sphere, the republic pledges to recognize and respect the basic generally accepted human and civil rights and democratic freedoms; to promote international exchange of spiritual values; and to cooperate with the world community on the humanitarian issues.¹ Certain Turkmenian lawyers insist that besides being set forth in the country's domestic legislation, their country's neutral status rests on the firm basis of international law.² This sounds like an overstate-

¹ See: "Konstitutsionnyi zakon Turkmenistana 'O postoiannom neytralitete Turkmenistana,'" *Vecherniy Ashgabad*, 3 January, 1996.

² See: E.A. Kepbanov, "Status Turkmenistana kak postoianno neytral'nogo gosudarstva," *Moskovskiy zhurnal mezhdunarodnogo prava*, No. 4 (32), 1998, pp. 35-47; Ia.

ment: the problem belongs primarily to the context of nation-building and the development of Turkmenistan's national ideology.

For historical reasons, more equal relationships with the former Center remain a priority at the level of bilateral relations. On 8 April, 1992, Turkmenistan and the Russian Federation established diplomatic relations, the main principles of which were consolidated in the Treaty on Friendship and Cooperation of 31 July, 1992. The document envisaged the need for close interaction in the foreign policy and defense spheres while preserving a common military-strategic expanse and including mutual assistance in the event of aggression against one of the sides. Equal and mutually advantageous economic cooperation was also envisaged to create a free trade area, customs union, and common economic expanse as well as cooperation on a wide range of humanitarian issues, including the guarantee of basic human rights and the rights of national minorities.³ In practice, however, the desired level of communications has not been achieved in any of the spheres. On 23 April, 2002, as a result of President Putin's visit to Turkmenistan, the two countries signed a new basic treaty that envisaged fewer mutual rights and obligations of the sides.⁴ The vague wording of the new document notwithstanding, it much more adequately reflects the present level of relations as well as the fundamental changes that have recently taken place in the relations between the two countries.

Kochumov, "Postoianni neytralitet Turkmenistana: mezhdunarodno-pravovoy aspekt," *Neytral'nyi Turkmenistan*, 11 July, 2000; M. Khaitov, "Istochniki mezhdunarodnogo gumanitarnogo prava (opyt gosudarstv Tsentral'noy Azii)," *Belorusskiy zhurnal mezhdunarodnogo prava i mezhdunarodnykh otnosheniy*, No. 1, 2001, pp. 17-24; etc.

³ See: "Dogovor o druzhbe i sotrudnichestve mezhdur Turkmenistanom i Rossiiskoy Federatsiey," *Turkmen-skaia iskra*, 3 August, 1992.

⁴ See: "Dogovor o druzhbe i sotrudnichestve mezhdur Turkmenistanom i Rossiiskoy Federatsiey," *Neytral'nyi Turkmenistan*, 24 April, 2002.

Military-Political Ties

Military development came to the fore after 1991 in relations in the military-political sphere. Cooperation in this sphere is rooted in the talks between the military delegation of the Russian

Federation headed by Defense Minister Pavel Grachev and the government of Turkmenistan that took place in Ashgabad on 7 and 8 June, 1992.⁵ A set of military agreements that included a Treaty on Joint Measures in Connection with the Creation of the Armed Forces of Turkmenistan signed during the official visit of President of Turkmenistan Saparmurat Niyazov to Moscow on 31 July, 1992 formed the legal basis of the military agreements. Under the treaty, it was decided to create the Armed Forces of Turkmenistan on the basis of units and formations of the Turkestan Military District of the former Soviet Union stationed on the territory of Turkmenistan. During the transition period, operational command of the Armed Forces was exercised by the united Russian-Turkmenian command headed by the commander as well as the headquarters subordinated in operational terms to the Russian Federation.⁶ In accordance with other agreements, the Russian side pledged to finance the military units stationed in Turkmenistan and provide them with material-technical support.⁷ Special conditions were extended to air defense and the air force, which organizationally belonged to the Armed Forces of the Russian Federation stationed in Turkmenistan under a special agreement.⁸

At first Moscow's leading role in the process of military development was ensured not only by the united command, but also by the staff. The Treaty on Joint Measures established, among other things, that Russian citizens serving in the formations and units of the former Soviet army deployed in Turkmenistan were considered Russian servicemen serving in the Armed Forces of Turkmenistan. In this way, the formations and units preserved their numerical strength to make stable functioning of the military formations in Turkmenistan possible under conditions where professional servicemen among the local people were practically non-existent.⁹ At the same time, the Russian servicemen functioned only under an Agreement on the Military Service of Citizens of the Russian Federation in the Armed Forces of Turkmenistan and Their Status signed on 1 September, 1993.¹⁰ Moscow, in turn, was prepared to help Turkmenistan train military specialists from among those who served under conscription and educate officers for the Armed Forces of Turkmenistan in the military educational establishments of the Russian Federation, if all other, including financial, issues were settled. Ashgabad was not ready to shoulder the burden of paying for its Armed Forces; on 1 January, 1994, the united command was replaced with a less taxing form of cooperation realized by an operational group of Russian troops at the Defense Ministry of Turkmenistan functioning on the basis of annual plans.

On 25 March, 1994, Turkmenistan published its military doctrine, which set forth the main trends of military development for several years to come.¹¹ Based on the "positive neutrality" conception, the doctrine was of significant importance for the republic's further relations with Russia. On 1 April, 1994, it was announced that the military structures would be reorganized.¹² Meanwhile, as the insti-

⁵ See: "Protokol rabochey vstrechi Pravitel'stva Turkmenistana i voennoy delegatsii Rossiiskoy Federatsii vo glave s ministrom oborony P.S. Grachevym," *Turkmenskaia iskra*, 9 June, 1992.

⁶ See: Dogovor mezhdru Rossiiskoy Federatsiei i Turkmenistanom o sovместnykh merakh v sviazi s sozdaniem Vooruzhennykh sil Turkmenistana (see: URL [http://www.businesspravo.ru/Docum/DocumShow_DocumID_41296.html], 26 November, 2003).

⁷ See: "Soglashenie mezhdru Pravitel'stvom Rossiiskoy Federatsii i Pravitel'stvom Turkmenistana o printsipakh material'no-tekhnicheskogo i torgovo-bytovogo obespechenia Vooruzhennykh sil Turkmenistana, voysk PVO i VVS Rossiiskoy Federatsii na territorii Turkmenistana," *Biulleten' mezhdunarodnykh dogovorov*, No. 8, 1994, p. 27.

⁸ See: "Soglashenie mezhdru Rossiiskoy Federatsiei i Turkmenistanom o pravovom statuse i usloviakh prebyvania chastei PVO i VVS Rossiiskoy Federatsii na territorii Turkmenistana," *Biulleten' mezhdunarodnykh dogovorov*, No. 8, 1994, pp. 20-26.

⁹ According to certain estimates, at the time when the Armed Forces of Turkmenistan were set up, ethnic Turkmen accounted for no more than 10 percent of the total number of officers (see: *Krasnaia zvezda*, 3 September, 1993).

¹⁰ For the texts of the Agreements see: *Biulleten' mezhdunarodnykh dogovorov*, No. 12, 1994, pp. 24-29.

¹¹ See: "Osnovnye polozenia Voennoy doktriny Turkmenistana," *Turkmenskaia iskra*, 26 March, 1994.

¹² See: "Ukaz Prezidenta Turkmenistana 'O sozdanii Soveta oborony i natsional'noy bezopasnosti Turkmenistana'," *Turkmenskaia iskra*, 26 March, 1994.

tutional structure developed and became stronger, the Defense Ministry of Turkmenistan started transferring the air defense and air force formations and units deployed on its territory from the Armed Forces of the Russian Federation and bringing them under the jurisdiction and control of Turkmenistan.¹³ During the next eighteen months, Turkmenistan, eager to prove its neutrality on the international scene, denounced most of the agreements under which Russian forces, military intelligence included, were stationed in the republic, as well as Russia's use of corresponding infrastructure. On 31 December, 1999, the above-mentioned agreement on the military service of the Russian citizens in the Armed Forces of Turkmenistan and their status expired. Russia's military presence in Turkmenistan came to an end.

Turkmenistan developed its border guards in the same way. Cooperation in the sphere of guarding the state border rested on the inter-state agreement of 27 August, 1992, under which, very much in line with the previous agreements, the border guards of Turkmenistan were based on the formations and units of the Central Asian Border District of the former Soviet Union stationed in Turkmenistan. Coordination was entrusted to the newly created united command of border guards staffed with people from both countries' competent structures. On 23 December, 1993, during President Yeltsin's visit to Ashgabad, the two countries signed a new inter-state treaty, under which the two countries guarded the so-called "outer border" together.¹⁴ In March 1994, an operational group of the Federal Border Guard Service with over 3,000 servicemen replaced the united command abolished by the treaty. However, since Turkmenistan was gradually mastering the situation on the border and the ruling regime had tightened its control over the flow of commodities from Afghanistan, the number and sphere of operation of the Russian border guards in Turkmenistan gradually shrank. On 20 May, 1999, the Foreign Ministry of Turkmenistan informed the Russian side of its intention to discontinue the treaty; by the end of 1999 the last units of the Federal Border Guards had left Turkmenistan.¹⁵

In this way, between the last day of the Soviet Union and the present the two countries concluded over twenty treaties and agreements related to a wide range of issues in the sphere of defense and national security. The practical results, however, look doubtful in the long term. Since the mid-1990s the intensity of the contacts and, accordingly, their quality have been steadily deteriorating; today, the level is comparatively low. Turkmenistan's isolationist foreign policies limit its contacts with Russia. Ashgabad, however, wants much more vigorous cooperation with Moscow in the sphere of interests of the special services. On 10 April, 2003, during Turkmenbashi's visit to Moscow, the sides signed an inter-state Agreement on Cooperation in the Security Sphere that envisaged, among other things, coordination of the security services in the anti-terrorist struggle up to and including deportation of people who perpetrated or were preparing to perpetrate terrorist acts on the territories of the sides.¹⁶ However, recently the two countries have drawn closer together to a certain extent. This is expected to become part of a set of agreements in the economic and humanitarian sphere. However, it is not quite clear how they can be implemented; it is equally hard to predict the future of the two countries' cooperation in the military-political sphere.

¹³ Despite this, for some years after these units were brought under Turkmenistan's exclusive jurisdiction and control, Moscow continued to contribute to the functioning and battle-worthiness of the air defense complexes in Turkmenistan under the intergovernmental agreements on military-technical cooperation of 18 May, 1995.

¹⁴ Dogovor mezhdru Rossiiskoy Federatsiy i Turkmenistanom o sovместnoy okhrane gosudarstvennoy granitsy Turkmenistana i statute voennosluzhashchikh Pogranichnykh voysk Rossiiskoy Federatsii na territorii Turkmenistana (according to my information, that text was never officially published).

¹⁵ See: *Nezavisimaia gazeta*, 24 December, 1999.

¹⁶ See: Soglashenie mezhdru Rossiiskoy Federatsiy i Turkmenistanom o sotrudnichestve v oblasti bezopasnosti (see: URL [<http://www.kremlin.ru/text/docs/2003/04/42885.shtml>], 11 April, 2003).

Trade and Economic Ties

As part of the Soviet Union, Turkmenistan was a source of raw materials and produced more raw cotton than its neighbors. Gradually, after the war of 1941-1945 as its huge hydrocarbon riches were discovered (natural gas in the Amu Darya basin and oil on the Caspian shelf, though in smaller quantities), the republic laid the foundation for its basic industry, mainly composed of the fuel and energy branches.¹⁷ Today gas extraction and gas export are the two most important economic branches: they create nearly half of the GDP and earn up to 90 percent of the country's hard currency incomes. The gas industry obviously predetermines the republic's economic dynamics as a whole.¹⁸ The range of estimates of the country's explored recoverable gas reserves is fairly wide: from 1.7 bcm (IMF) to 2.9 bcm (BP) and 44 bcm (Niyazov) of natural gas.¹⁹ Any of these figures is large enough to move the country into the front ranks of potential gas exporters. To preserve its economic independence, Turkmenistan should be able to consistently and freely move its resources, energy resources in particular, to the world markets.

Before 1990, the republic's gas sector was part of the Soviet fuel and energy complex. At that time, its gas integrated into the united gas pipeline system was mainly used to cover a large part of Ukraine's needs for fuel and energy. Nearly all the gas produced in the republic, with the exception of relatively small amounts used inside Turkmenistan, went to the all-Union network through the Central Asia-Center system of main pipelines that connected the gas-producing areas in the southeast of Turkmenistan across Uzbekistan and Kazakhstan with the center of Russia. There the gas entered the pipeline system leading to Ukraine and (potentially) to Europe. It was the only gas route used for export purposes. Since 1991, gas has been pumped to the Far Abroad as part of the Russian monopolies' export under the annual quota Russia gave Turkmenistan. Under the intergovernmental agreements of 11 November, 1992, Turkmenistan's quota for 2003 contained additional 11.3 bcm (the republic continued to produce the planned amount of 80.6 bcm, which included the 28.6 bcm sold to Ukraine).²⁰ The short-term nature of the contracts made it necessary to renew them fairly often—the same applies to the gas-transit agreements. In this way, Moscow acquired a wide range of tools for regulating the volumes and directions of fuel flows along the pipelines on its territory.

In October 1993, Russia, as represented by Gazprom, denied Turkmenistan access to its pipelines: the republic could no longer sell its natural gas to Europe, but could very much as before sell its fuel to Soviet successor states, its traditional markets. Deliveries to Ukraine and the Transcaucasus,

¹⁷ About the economy of Turkmenistan see: R. Pomfret, "Turkmenistan: From Communism to Nationalism by Gradual Economic Reform," *MOCT-MOST: Economic Policy in Transitional Economics*, No. 11 (2), 2001, pp. 165-176.

¹⁸ About the FEC of Turkmenistan see: S. Kamenev, "Turkmenistan's Fuel and Energy Complex: Present State and Development Prospects," *Central Asia and the Caucasus*, No. 6 (12), 2001 (see: URL [<http://www.gundogar.com/014.htm>], 20 December, 2001).

¹⁹ See: Turkmenistan: Recent Economic Developments. IMF Staff Country Report No. 99/140. International Monetary Fund, Washington, D.C., December 1999; BP 2004 Statistical Review of World Energy, p. 20; "Vystuplenie Prezidenta Turkmenistana Saparmurata Turkmenbashi na vstreche s sotrudnikami Posol'stva Turkmenistana v Moskve," *Neytral'nyi Turkmenistan*, 3 December, 2001.

²⁰ See: "Soglashenie mezhdru Pravitel'stvom Rossiiskoy Federatsii i Pravitel'stvom Turkmenistana o postavkakh prirodnogo gaza v 1993 godu," *Biulleten' mezhdunarodnykh dogovorov*, No. 4, 1994, p. 71; "Soglashenie mezhdru Pravitel'stvom Rossiiskoy Federatsii i Pravitel'stvom Turkmenistana o torgovo-ekonomicheskom sotrudnichestve v 1993 godu," *Biulleten' mezhdunarodnykh dogovorov*, No. 3, 1994, p. 49; "Soglashenie mezhdru Pravitel'stvom Turkmenistana i Pravitel'stvom Ukrainy o postavkakh prirodnogo gaza v 1993 godu," *Turkmenkaia iskra*, October 1992 (*Author's archives*).

however, could not close the gap left by the discontinued export to Europe. The shift to hard currencies and world prices left many of the post-Soviet republics insolvent. Kiev alone owed Ashghabad over \$700 million for the deliveries of strategic energy fuels Ukraine received in 1993. In the winter of 1994, after registering negative tendencies in cash flow, Turkmenistan suspended its gas deliveries.²¹ In November 1994, Kiev reached an understanding with Ashghabad with the help of international financial institutions on the need to restructure its debt into a state loan and resume gas deliveries. Relations were no longer transparent: some of the gas supplied under the contract was delivered by the hitherto unknown “international” ITERA company. Still, the payment discipline of Turkmenistan’s trade CIS partners remained deficient.

The Kremlin’s ability to effectively control Turkmenistan’s gas exports made the republic more responsive to Russia’s geopolitical interests. During Turkmenbashi’s visit to Moscow on 17 and 18 May, 1995, the sides reached an agreement under which Russia was invited to develop its natural resources through a joint venture. It was decided to develop several hydrocarbon fields in Turkmenistan to export fuel through newly created pipeline systems.²² Later, in November 1995, it was specified that the exported volumes for 1996 were to be handled by the Turkmenrosgaz, a newly created Russian-Turkmenian joint stock company.²³ Gazprom and ITERA, two companies that founded the JV on the Russian side, pledged to help Ashghabad reach the European markets in 1997.²⁴ The hopes Ashghabad pinned on the project were dashed: in March 1997, when the total debt of the users of Turkmenistan’s natural gas (Ukraine and Georgia in particular, as well as two of Russia’s partners) exceeded the figure of \$1.5 billion, the republic annulled the agreements on Turkmenrosgaz and discontinued gas export.

Throughout the 1990s, Turkmenistan, while maintaining a maximally high level of its north-bound fuel deliveries, actively sought new markets by diversifying its export routes. The results were modest. In December 1997, it commissioned a low-productive Korpeje-Kurtkui pipeline that connected the western gas fields with the neighboring northeastern provinces of Iran. This symbolically ended Russia’s monopoly on oil transit from Turkmenistan. The line, however, remained of very limited importance—Iran is one of the largest gas producers itself, trying to reach the same markets as Turkmenistan. Meanwhile, in October 1997, Turkmenistan, which maintained cordial relations with the Taliban, signed a protocol in Ashghabad under which the Turkmen government transferred its exclusive rights on a consortium that was expected to build a trans-Afghan pipeline to Pakistan to UNOCAL, an American oil and gas concern.²⁵ Finally, in November 1999, in Istanbul, the heads of the four states approved the activities of the international PSG consortium expected to build a trans-Caspian gas pipeline from Turkmenistan across Azerbaijan and Georgia to Turkey.²⁶ So far, because of the very complex geopolitical situation in the Caspian-Central Asian re-

²¹ See: “Srochnoe reshenie Pravitel’stva Turkmenistana,” *Turkmenskaia iskra*, 22 February, 1994. In April 1994 Turkmenistan applied the same measures to Azerbaijan.

²² See: Soglashenie mezhdru Pravitel’stvom Rossiiskoy Federatsii i Pravitel’stvom Turkmenistana o sotrudnichestve v neftianoy i gazovoy oblastiakh (see: URL [http://www.businesspravo.ru/Docum/DocumShow_DocumID_37289.html], 26 November, 2003).

²³ See: Soglashenie mezhdru Rossiiskim aktsionernym obshchestvom “Gazprom” i Pravitel’stvom Turkmenistana o vzaimnom sotrudnichestve v 1996 godu (see: URL [<http://npa-gov.garweb.ru:8080/public/document.asp?no=1020015>], 28 May 2004).

²⁴ See: Soglashenie mezhdru Pravitel’stvom Turkmenistana, Rossiiskim aktsionernym obshchestvom “Gazprom” i Mezhdunarodnoy energeticheskoy korporatsiei “Itera” o vzaimnom sotrudnichestve v 1997 godu (*Author’s archives*).

²⁵ For more detail about the project revived in 2002 in the context of the Turkmenian-Afghan ties see: M. Esenov, “Turkmenistan’s Foreign Policy and its Impact on the Regional Security System,” *Central Asia and the Caucasus*, No. 1 (7), 2001 (see: URL [<http://www.gundogar.com/015.htm>], 21 December, 2001).

²⁶ See: “The Intergovernmental Declaration on Transcaspiian Gas Pipe-line Implementation Principles between the Republic of Azerbaijan, Georgia, the Republic of Turkey and Turkmenistan in Connection with the Transcaspiian Gas Pipe-line Project Implementation,” *Press-kurier Turkmenbashi*, Issue 16, 1999 (see: URL [http://www.tmpress.gov.tm/vol16_declaration.html], 10 October, 2000).

gion none of the planned steps has progressed beyond the designing stage. In view of the failed alternative gas export projects, the latest of which Washington actively lobbied, Ashghabad had to resume negotiations with its traditional partners in the post-Soviet area. Starting with 1999, Turkmenistan has been gradually increasing supplies. When its protracted talks on a long-term agreement with Moscow failed because of disagreements over the prices, on 14 May, 2001, during the Turkmenian president's visit to Kiev, the two countries signed an agreement on trade and economic cooperation, including gas deliveries to Ukraine for the period of 2002-2006.²⁷

It was only during the Moscow summit of 10 April, 2003 mentioned above that the two countries achieved a breakthrough in their relations; they signed an intergovernmental agreement on cooperation in the gas sphere, under which the volume of gas supplied to Russia would increase to reach an annual figure of up to 80 bcm during the next twenty-five years.²⁸ It was an important agreement for Ashghabad: by building up its export to the maximum within a relatively short period of time—and falling into one-sided dependence by the same token—the country ensured a stable flow of hard currency, on which the ruling regime depended for its continued existence. Moscow, likewise, profited from the deal: re-export of cheap Central Asian gas will allow Moscow to meet Gazprom's growing obligations, not only on the domestic market but also on the profitable West European markets. In the geopolitical context, the deliveries of Central Asian gas along the only main pipeline to Gazprom undermined Kiev's negotiation position. In future, Ukraine will be forced to talk to Moscow about gas deliveries; this will greatly affect the Eurasian energy market. Thus, it can be said that so far Moscow has been winning the game around Turkmenian gas. At the same time, the reputation of all the sides involved in the game leaves much to be desired, so difficulties and changes cannot be excluded.

Humanitarian Contacts

For historical reasons, the large Russian diaspora in Turkmenistan remains the key factor of the humanitarian contacts between both countries. As early as the 1880s, the first Russian settlers reached the territory of contemporary Turkmenistan. This happened after the victory of General Skobelev at Geok-Tepe in 1881 when the resistance of the Turkmenian tribes was finally crushed. However, the Slavs did not hasten to move to the inhospitable deserts in great numbers, where epidemics were another menace. In the early 1930s, forced collectivization brought more Slavic people there; later, during the Great Patriotic War of 1941-1945, Slavs from the occupied parts of the Soviet empire joined them. In the 1950s, the share of Russians began to decline; in the 1970s, the number of Russians dropped because of re-emigration and their relatively low birth rate compared with the local people. Despite this, until the downfall of the Soviet Union, Russians remained the second largest ethnic group in the republic. According to the all-Union population census of 1989, there were 330,000 of them, or about 9.5 percent of the total population. Nevertheless, since 1991 Russian re-emigration has become a mass

²⁷ See: Jan S. Adams, "Russia's Gas Diplomacy," *Problems of Post-Communism*, May-June 2002, pp. 14-22; Uгода mizh Ukrainoiu i Turkmenistanom pro postavki prirodnogo gazu iz Turkmenistanu v Ukrainu v 1999 rotsi (in Ukrainian) (see: URL [<http://www.rada.kiev.ua/cgi-bin/putfile.cgi>]); Uгода mizh Ukrainoiu i Turkmenistanom pro postachannia prirodnogo gazu iz Turkmenistanu v Ukrainu u 2000-2001rokakh (in Ukrainian) (see: URL [<http://www.rada.kiev.ua/cgi-bin/putfile.cgi>], 8 February, 2002); "Soglashenie mezhdru Turkmenistanom i Ukrainoy o postavkakh prirodnogo gaza iz Turkmenistana v Ukrainu v 2002-2006 godakh," *Neytral'nyi Turkmenistan*, 17 May, 2001.

²⁸ See: Soglashenie mezhdru Rossiiskoy Federatsiei i Turkmenistanom o sotrudnichestve v gazovoy otrasli (see: URL [<http://www.kremlin.ru/text/docs/2003/04/42886.shtml>], 11 April, 2003).

phenomenon. In 2001, in his “holy book,” Turkmenbashi wrote that the share of Russians in Turkmenistan was about 2 percent: this looks plausible even though not all statistics of Turkmenian origin can be relied upon.

The republic’s leaders were aware of the painful nature of the issue and the possible negative repercussions caused by the large-scale exodus of highly skilled specialists working in the science-intensive branches. At first, they made certain concessions to Moscow: during the Ashgabad summit of 23 December, 1993, the two countries signed agreements on the regulation of migration and defense of the migrants’ rights and an agreement on dual citizenship, under which each of the sides pledged to recognize the right of its citizens to acquire the citizenship of the other side without losing its own citizenship.²⁹ On 18 May, 1995, during the summit in Moscow, the sides signed a package of interstate treaties in the humanitarian sphere designed to create conditions for continued existence and unimpeded development of ethnic, cultural, linguistic, and religious specifics of the ethnic minorities on their territories. This gave Moscow not only indispensable legal guarantees, but also a very much-needed legal precedent in the form of dual citizenship to be applied when dealing with the other CIS countries. But as a tool for protecting the rights of Russians in Turkmenistan and Russia’s continued influence there, these acts proved useless. It is very hard to describe in detail the very special process of state and national development in post-Soviet Turkmenistan, but even an overview of certain aspects will provide the reader with an idea about the nature and scope of the ethnopolitical processes in the country.

Liquidation of the educational system is the saddest chapter in Turkmenistan’s post-communist existence. In 1993, the presidential Education Program was introduced, which envisaged, among other things, nine, instead of eleven years, of secondary education.³⁰ This deprived the younger generation of receiving a higher education abroad. Later, in 1994 all Russian secondary schools were transformed into mixed Russian-Turkmen schools.³¹ Then the system of post-graduate education was reformed (later, in 1998, the Academy of Sciences was disbanded). The term of higher education was reduced to two years—students were expected to practice for two more years at enterprises and in offices. Specialized secondary schools, colleges, and other types of secondary educational establishments were closed down. This was not all: to realize the nation’s “spiritual revival,” “alien,” even fundamental, subjects in school curricula were replaced with new “disciplines” such as “the teaching of Great Saparmurat Turkmenbashi about independence,” “the teaching of Great Saparmurat Turkmenbashi about neutrality,” and “The Holy *Rukhnama* of Great Saparmurat Turkmenbashi.”³² Under an intergovernmental agreement of 21 January, 2002, a joint Russian-Turkmen school named after Pushkin was opened in Ashgabad. This is the only school that provides an 11-year complete secondary education in Russian according to the federal curricula. It is intended mainly for children from foreign missions and cannot accept all those wishing to study.

The same can be said about the other social spheres. In June 2004, it was officially demanded that all diplomas and educational certificates issued abroad should be re-registered in Turkmenistan;

²⁹ See: “Soglashenie mezhdru Rossiiskoy Federatsiey i Turkmenistanom o regulirovanii protsesssa pereselenia i zashchite prav pereselentsev,” *Diplomaticheskii vestnik*, No. 1-2, January 1994, pp. 24-27; “Soglashenie mezhdru Rossiiskoy Federatsiey i Turkmenistanom ob uregulirovanii voprosov dvoynogo grazhdanstva,” *Diplomaticheskii vestnik*, No. 1-2, January 1994, pp. 27-29.

³⁰ See: “Vystuplenie Prezidenta Turkmenistana S.A. Niyazova na soveshchaniy rabotnikov obrazovaniya Turkmenistana,” *Vecherniy Ashgabad*, 5 May, 1993.

³¹ On 1 September, 2002, all 49 remaining mixed secondary schools in Turkmenistan were transformed into purely Turkmen schools. See: Turkmenistan. Iz doklada Ministerstva inostrannykh del Rossiiskoy Federatsii “Russkiy iazyk v mire,” Moscow, 2003 (see: URL [www.in.mid.ru], 1 November, 2004).

³² About this see: S. Kamenev, “The Current Sociopolitical Situation in Turkmenistan,” *Central Asia and the Caucasus*, No. 2 (14), 2002 (see also: URL [http://www.gundogar.org/ruspages/270.htm], 2 April, 2002).

³³ See: RFERL. Turkmen Report, 7 June, 2004. To confirm an old diploma, each person was expected to pass an exam on Turkmenbashi’s “holy” book *Rukhnama*.

this caused a wave of dismissals of Russian speakers from the public sector.³³ The health care system was almost completely ruined by the efforts to “rationalize” it by replacing trained medics with free workforce (young men serving in the army on conscription), or by closing down regional and district hospitals.³⁴ In April 2001, Turkmenbashi banned ballet and opera in the republic and closed the opera and ballet theaters on the grounds that the Turkmen “had no ballet in their blood.”³⁵ Turkmenistan is one of the few post-Soviet countries in which religious activities not sanctioned by the state are criminally persecuted.³⁶ Even though the above measures are mostly repressive or are spearheaded against the intelligentsia as the potentially most active and, therefore, most dangerous segment of society,³⁷ the echo mostly reverberates against Russian speakers as a whole and ethnic Russians in particular, because of the specifics of the local social structure.

The “Turkmenization” policy consistently applied in the last fifteen years has gradually removed members of the non-titular ethnoses from the most important fields and contracted, to a great extent, the sphere of the Russian language. Starting on 1 January, 2000, all official documents in the republic are written in the state (Turkmen) language.³⁸ The information sphere is also changing: in July 2004, broadcasting of the Russian radio station Maiak was suspended. In a country where the media is completely controlled and from which foreign publications are banned, this means that Russian-language radio and TV broadcasting was also removed. The names of months were changed to rid them, according to Turkmenbashi, of the last traces of 110 years of slavery. Restrictions imposed in foreign relations likewise disrupted ties with the Russian language sphere: there is no longer international railway and bus communication; and a visa regime is applied to CIS citizens. Predictably, the CIS members responded by introducing visas for Turkmen citizens; and the borders were fortified. In this way, the regime has achieved almost complete isolation from the outside world.

In the spring of 2003, when Turkmenistan unilaterally abolished dual citizenship, the position of the Russian diaspora worsened. On 10 April, 2003, as soon as the agreements on cooperation in the gas sphere were finalized, Turkmenistan issued a Protocol on Discontinuation of the Dual Citizenship Agreement, after which Turkmenbashi used the fact to publish a special decree under which all people with dual citizenship were “granted the right” to choose one of them. After two months, those who had failed to do so were considered either citizens of Turkmenistan or the Russian Federation depending on their place of permanent residence.³⁹ The legal nature of the president’s decisions are doubtful, still the very fact that the decree was published proved enough to trigger a campaign by the state security bodies to identify those who had two passports. The Russians panicked. Under pressure from the public and the State Duma, which called on the Kremlin to take measures against the arbitrary steps of the Turkmenian authorities that might, according to the Russian side, affect up to 100,000

³⁴ See: “Po ukazaniu Niyazova gotovitsia uvol’nenie 15,000 rabotnikov zdravookhranenia,” *Press release PTs Memorial*, 19 January 2004.

³⁵ “Vystuplenie Prezidenta Turkmenistana Saparmurata Turkmenbashi vo Dvortse Mekan na soveshchani s tvorcheskimi rabotnikami (3 apreliia 2001 goda),” *Neytral’nyi Turkmenistan*, 11 May, 2001.

³⁶ For more detail, see: S. Demidov, “Religion in Post-Soviet Turkmenistan,” *Central Asia and the Caucasus*, No. 4 (10), 2001 (see: URL [http://www.gundogar.com/018.htm], 21 December, 2001).

³⁷ The Law on Selecting State Managers and Officials for Public Service in Turkmenistan of 9 August, 2002 is the most typical example of discriminatory legislation. It envisages checking three generations of those claiming posts in the structures of state power and administration (see: *Neytral’nyi Turkmenistan*, 24 August, 2002).

³⁸ See: Postanovlenie Khalk Maslakhaty Turkmenistana “O navechnom utverzhdenii turkmenskogo iazyka i turkmenskogo natsional’nogo alfavita v deiatel’nosti organov gosudarstvennogo upravleniia, vo vsekh sferakh zhizni nezavisimogo Turkmenistata,” *Neytral’nyi Turkmenistan*, 30 December, 1999.

³⁹ See: Protokol o prekrashchenii deystvia Soglashenia mezhdru Rossiiskoy Federatsiei i Turkmenistanom ob uregulirovanii voprosov dvoynogo grazhdanstva (see: URL [http://www.businesspravo.ru/Docum/DocumShow_DocumID_84507.html], 29 October, 2003); Ukaz Prezidenta Turkmenistana “Ob uregulirovanii voprosov dvoynogo grazhdanstva mezhdru Turkmenistanom i Rossiiskoy Federatsiei,” *Neytral’nyi Turkmenistan*, 23 April, 2003; Polozhenie ob uregulirovanii voprosov dvoynogo grazhdanstva mezhdru Turkmenistanom i Rossiiskoy Federatsiei.

people, Russia, together with the world community, began a procedure of introducing international sanctions against Ashghabad. As a concession by Ashghabad, an inter-state commission on settling the controversial issues was set up several months later⁴⁰; however, the results of its activities or, rather, of its only sitting vanished without a trace.

* * *

Turkmenistan's foreign policy is a unique case of overcoming post-imperial dependence through voluntary self-isolation. Ashghabad is convinced that its extreme foreign policy orientation is the only way to create and preserve favorable external conditions to achieve the ruling regime's consolidation or rather conservation. In fact, the regime is unlikely to outlive its creator: its foreign and domestic policies are too closely intertwined with the country's leader. The republic is plunging into international isolation, therefore we can expect exacerbation of the problems that have been ignored far too long.

⁴⁰ See: "Zaiavlenie Gosudarstvennoy Dumy Federal'nogo Sobrania 'O sobliudeniі prav grazhdan Rossiiskoy Federatsii v Turkmenistane'" (see: URL [<http://wbase.duma.gov.ru/ntc/vdoc.asp?kl=12605>], 26 November, 2003).

RELIGION IN SOCIETY

**IRAN:
EXPERIMENTING WITH
THE ISLAMIC ECONOMY**

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There is the opinion that Iran has been engaged in applying Islamic principles to its economy or, rather, to its financial sector, more consistently than other Muslim countries.¹

The facts, however, do not completely confirm the above. The people brought to power by the 1978-1979 Islamic Revolution had no clear ideas about economic reforms. The concept of so-called *touhid*² economics proved ill-suited to the profound Islamic-style economic reforms, something that certain clerics insisted on. *Eghtesad-Tohidi* (Touhid Economics) by Abolhassan Banisadr,³ which

¹ See: A. Ziauddin, "Islamic Banking: State of the Art," *Islamic Economic Studies*, 1415 (1994), Rajab, Vol. 2, No. 1, p. 21; V.Ia. Belokrenitskiy, "Poslevoennaia modernizatsia v stranakh Zapadnoy Azii. Obshchie tendentsii i raskhodiaschiesia traektorii razvitiia," in: *Osobennosti modernizatsii na musul'manskom Vostoke. Opyt Turtsii, Irana, Afganistana, Pakistana*, Moscow, 1997, p. 40, etc.

² From the Arab "tauhid"—monotheism. Touhid economics looks at economic relations as an inalienable part of the Islamic lifestyle.

³ Abolhassan Banisadr (b. 1933) became the first president of Iran in September 1980; he was Khomeini's advisor; was defeated by the supporters of Ayatollah Beheshti. By his decree, Khomeini removed Banisadr from the post of Supreme Commander of the country's armed forces; the Supreme Court initiated proceedings on excess of powers. The Majlis discussed his political incompetence and his non-conformity to the post. On 21 June, 1981, the Majlis removed him from his post, the decision being confirmed by the *rahbar* (Khomeini). Persecutions of his supporters forced him to go into hiding; today he lives in France.

predated the Islamic Revolution⁴ by several weeks, put the term into daily use. His popularity made the book well known across the country; it came to be regarded as a twin volume to Khomeini's classical work *Hokumat-e eslami* (Islamic Government).⁵

His book described the ideal Islamic society as a model of *touhid* economics, in which all and everyone are owners of the means of production. Such ownership is limited to the potential of personal labor rather than capital, while high incomes produced outside personal labor are regarded as illegal. All property not based on personal labor should belong to the Islamic state.

The author described the model of Islamic society as a world of effluence which is free from state borders and in which knowledge is cherished as the highest value, and he was convinced that twelve generations could achieve the ideal. In other words, the book offered an ideal model rather than analyzed realities.

His book bears easily detected traces of the ideas of utopian socialists, Proudhon in the first place. Banisadr, a Western-educated intellectual who spent many years in the West, was very familiar with his works.

V. Tsukanov, a Russian expert in Islam, has identified the following features of the *touhid* model:

- (1) *touhid* economics described the uneven distribution of wealth as one of the main problems. It, and Islamic economics as a whole, concentrates on distribution, exchange, and consumption rather than on production. Exploitation results from the wrong way surplus product and surplus value are used, not from uncompensated appropriation.
- (2) It denies that there is a connection between growing private property and the commodity-money nature of production.
- (3) It looks at autarchy as a means of liberating the country from its economic and political dependence on other countries. The changes carried out ignored similar processes in other countries (Pakistan, Sudan, Malaysia). Since the Islamic revolution's victory, Iran has failed to formulate a single program of economic Islamization.⁶

The above suggests that the autonomous nature of the Iranian *touhid* model notwithstanding, its general postulates completely coincide with the postulates of the Islamic economic theory as a whole.

The term "*touhid* economics" is directly related to Banisadr: in 1981, upon his removal from the post of president and Imam Khomeini's advisor, it dropped out of use, at least inside the country.

Banisadr and Peyman were not the only ones in Iran who wrote about Islamic economics. Earlier, Mahmud Talegani (1911-1979) was one of the first: his "Islam and Property" appeared in 1951. He never suggested any detailed conception of the Islamic economic order. Like many of his Islamic colleagues, Ayatollah Talegani never paid adequate attention to the problem of regulating production relations—he concentrated on the issue of wealth distribution in the Shari'a context. He believed that property should be limited in the interests of society and according to Muslim law.

In his book *Our Economy*, published in 1961, Ayatollah Muhammad Bakir al-Sadr, one of the prominent contemporary Shi'a theologians, who relied on the neo-classical methodology, wrote

⁴ See: A. Banisadr, *Eghtesad tohidi* (in Persian), available at [<http://www.banisadr.com.fr/Books/EGHTESAD-TOHIDI/html/EGHTESAD-TOHIDI.html>].

⁵ In 1981, Habibullah Peyman replaced Banisadr as the main unofficial economic ideologist.

⁶ See: V. Tsukanov, "Kontseptsia 'touhidnoy ekonomiki' v IRI," *Spetsial'nyi biulleten' IV AN SSSR*, Moscow, 1981, pp. 129-131. The list can be completed with the policy of encouraging petty producers.

that Islam had no economic theory of its own. He favored the state's more prominent role in economics and insisted that its functions were important for maintaining social balance. He wrote that the aims property serves are the main criteria of its legitimacy and placed public interests over private ones.

Another prominent Muslim thinker, Ali Shariati (1933-1977), influenced what the Iranians thought about a just economic order. He wrote that the ideal society was a classless society. This was readily supported by Mujahedin-e Khalq (Mujahids of the Iranian Nation), leftist Muslim intellectuals, etc. However, like Talegani and Sadr, Ali Shariati failed to create an accomplished conception of Islamic economics. Out of the three authors, Ali Shariati was the most original thinker: the other two were engaged in a creative revision of the economic ideas of the Muslim and European authors of the Middle Ages and Modern Times.⁷

This shows that with the victory of the Islamic Revolution, the country's leaders had no clear conception of socioeconomic development in the spirit of Islam. For objective and, even more so, subjective reasons, Banisadr's utopian ideas could not be used as a theoretical starting point for Islamic economic reforms, while the other authors failed to supply an integral conception of development according to Islam. The Iranian economists preferred to ignore the experience of other Muslim countries that tried, before them, to adjust their economies to Islam.

Property was the main post-revolutionary issue when the economic reforms were just unfolding. The 1979 IRI Constitution treated public property as a priority, therefore the state fortified its role in the economy through nationalization. The banks were no exception: between 1979 and 1983 the banking sectors was nationalized and centralized. The reforms left 5 commercial and 4 specialized banks where 36 commercial and specialized banks had been operating.

Under the Usury-Free Banking Operations Act adopted in 1983 and enforced in 1984, all banks were to transfer their deposits on a non-interest basis within twelve months; within three years, they were expected to harmonize their operations with the Shari'a.⁸ The law described 14 types of operations applicable to assets and liabilities—*mudaraba*, *murabaha*, *ijara*, *salaf*, or *bay' as-salam*, *ju'ala*, etc. The banks were allowed to buy debt "instruments," supported by real assets, for a period of up to twelve months.

Under Art 3 of the same law, the IRI banks could receive deposits for each of the following types (1) interest-free *gharz-al-hassaneh*, which in turn can be either current or savings accounts and (2) term investment deposits. Both current and savings accounts are guaranteed, which does not fully correspond to the ideas held by most Islamic scholars that the bank and the depositors should share the risks.

Under Art 6, "promotion methods" could be used to reward the depositors with "non-fixed bonuses in cash or in kind on interest-free deposits; exempting the depositors from, or granting discounts thereto, in payment of commissions and/or fees according to priority in the use of banking facilities."⁹

The owners of term investment deposits can count on additional funds, the amount of which depends on the profitability of the bank-financed projects. The basic sum remains intact and safe.

The Law envisages a special social role of the Islamic banks. Under Art 14, in conjunction with Art 43 (points 2 and 3) of the IRI Constitution,¹⁰ the banks have to allocate money for those who need

⁷ See: V.G. Malushkov, *Filosofskie i obshchestvenno-politicheskie vzgliady Ali Shariati*, Author's Summary, Moscow, 1987; *Islamskaia intelektualnaia initsiativa v XX veke*, ed. by G.D. Djemal, Moscow, 2005.

⁸ Foreign economic activity continued to be carried out on an interest-based system.

⁹ In the first-post-revolutionary years, banks paid hajj for their clients as an incentive.

¹⁰ "The economy of the Islamic Republic of Iran, with its objectives of achieving the economic independence of society, uprooting poverty and deprivation, and fulfilling human needs in the process of development, while preserving

interest-free loans. It is for the Central Bank to elaborate the procedure to be endorsed by the Cabinet of Ministers. Interest-free gharz-al-hassaneh loans are granted to people with low incomes to build cheap housing, develop petty businesses in agriculture, etc.

Under the Law (Note to Art 8), however, the “banks are by no means entitled to interest in the production of luxury and non-essential consumer goods.”

In real life, the Islamization process has not been as smooth as the banking reformers wished. Like Islamic banks elsewhere, the Iranian banks did not work hard enough to decrease their involvement in trade operations, which meant their greater role in profit-and-loss-sharing investment projects. In five years, between 1985 and 1990, the mudaraba share dropped from 18.1 to 10.7 percent,¹¹ while the murabaha share increased over the same period from 33.3 to 46.4 percent.¹²

The law on usury-free banking discusses the Central Bank’s regulatory role in a special chapter. The banking reforms in Iran made monetary regulation dependent on the country’s budget policy; later the interests of the state played down the role of Islamic principles in banking.

The so-called bunyads are the only functioning institution of Islamic economics in Iran: they are Islamic foundations that perform both economic and social functions; there is the opinion that they are a modified form of waqufs.¹³ The largest of the Islamic foundations—the Foundation of the Dispossessed—set up in March 1979 was based on the property confiscated from the shah and his supporters. It has developed into a large holding uniting numerous companies.¹⁴

As the nationalization of banks, insurance companies, and trade and industrial corporations unfolded, large sums poured into the Islamic foundations, which were also growing rich on tax and other privileges. In 2001, the Foundation of the Dispossessed with a capital of \$12 billion was the country’s second largest corporation after the Iranian National Oil Company.¹⁵

There are many other bunyads in the country—the Imam Khomeini Relief Committee, the Martyrs Foundation, the Foundation for the Oppressed and War Invalids, the 15 Hordad Foundation, etc.

Not all clerics were happy with the reforms, nationalization, and property redistribution. In 1984, a group of economists headed by Muhammad Taqi Misbah Yazdi published a book called *An Introduction to Islamic Economy*, which criticized Ali Shariati, Banisadr, and Peyman, who wanted to limit property. The authors argued that economic development, rather than formal justice, should come first. This could hardly be harmonized with Islam’s true objectives.

human liberty, is based on the following criteria: 2) ensuring conditions and opportunities for employment for everyone, with a view to attaining full employment; placing the means of work at the disposal of anyone who is able to work but lacks the means, in the form of cooperatives, through granting interest-free loans or recourse to any other legitimate means that neither results in the concentration or circulation of wealth in the hands of a few individuals or groups, nor turns the government into a major absolute employer. These steps must be taken with due regard for the requirements governing the general economic planning of the country at each stage of its growth; 3) the plan for the national economy must be structured in such a manner that the form, content, and hours of work of every individual will allow him sufficient leisure and energy to engage, beyond his professional endeavor, in intellectual, political, and social activities leading to all-round development of his self, to take active part in managing the affairs of the country, to improve his skills, and to make full use of his creativity.”

¹¹ See: S.A.A. Hedayati, “Some Theoretical and Philosophical Aspects of Islamic Banking: a Dimension of Islamic Economics,” Paper presented at the Third International Course in Islamic Banking, Tehran (quoted from: A. Ziauddin, op. cit.).

¹² Ibidem.

¹³ See, for example: N.M. Mamedova, “Islamskie fondy i predprinimatel’skaia deiatel’nost’ iranskogo dukhovenstva,” *Mirovaia ekonomika i mezhdunarodnye otnosheniia*, No. 7, 1997, pp. 108-112. At the same time, classical waqufs have survived in Iran and are still functioning. The largest of them, Astane Kods Razawi dating from the 16th century, includes hundreds of thousands of hectares of land.

¹⁴ By 2004, the Foundation owned over 400 companies (see: N.Iu. Ulchenko, N.M. Mamedova, *Osobennosti ekonomicheskogo razvitiia sovremennykh musul’anskikh gosudarstv (na primere Turtsii i Irana)*, Moscow, 2006, p. 205).

¹⁵ See: *The Economist*, 21 July, 2001, p. 56 (quoted from: N.Iu. Ulchenko, N.M. Mamedova, op. cit., p. 137).

The initial period of economic Islamization in Iran came to an end in the mid-1980s for objective reasons: the war with Iraq (1980-1988), plummeting world oil prices and growing budget deficit, and the absence of a clear plan of economic Islamization. This explains why, starting at that time, the country gradually moved away from the earlier economic course aimed at Islamization. To win the war and address its economic problems with any degree of success, Iran had to become “open” to the world, which meant that autarchy as one of the key postulates of the *touhid* model was abandoned.¹⁶

Some of the laws formulated according to the Islamic economic teaching were revised: in 1982, a legal act was adopted that established a procedure under which large mineral deposits and mines were transferred to the state. It was based on the Islamic ideas about property. It was announced that from that time on, mineral riches and deposits belonged to the Muslim community (*umma*) and were public property. Less than two years later, however, the act was revised to transfer some of the unused mines to private owners. The new law passed in 1985 created additional favorable conditions under which non-public mining enterprises could be set up mainly in the form of group companies.

In many economic aspects state regulation had failed, so in the late 1980s, the country began liberalizing some of the national economic spheres.

The reforms of President Rafsanjani (1989-1997) liberalized domestic, mainly agricultural, prices, currency exchange, and foreign trade; part of the public sector was privatized; bit by bit subsidies of foodstuffs were replaced with personal subsidies, etc.¹⁷ The First Five-Year Plan, in the part that envisaged foreign loans, ran contrary to the constitutional principle that banned foreign, capital included, interference in the Iranian economy.¹⁸ The First Five-Year Plan made it possible to use buy-back credits under which the country could pay foreign investors through direct supplies of products to a third country (a foreign client), which in turn assumed the obligation to pay the investor. The plan contained no references to the Islamic economic principles. This meant that liberalization moved economic reforms further away from the course toward economic Islamization.

Khatami’s presidency was marked by a certain amount of liberalization in the cultural and political spheres, while in the economic sphere he moved toward liberalization more cautiously than his predecessor. This was especially evident in foreign economic cooperation and privatization. Economic Islamization was no longer mentioned, even at the level of declarations. The Fourth Plan of Economic, Social, and Cultural Development of IRI for the period of 2005-2009/10 adopted by the law the Majlis passed in August 2004 did not mention the Islamic nature of the country’s economy.¹⁹

N. Mamedova, an expert in Iranian economics, has rightly pointed out that economics reflected most faithfully the evolution of the Islamic regime in Iran, which was demonstrated in particular by privatization and the attraction of foreign capital.²⁰

On the other hand, the law on usury-free banking is still valid.²¹ Despite this, the interest-based system still operates in foreign economic relations and on the domestic scene.

¹⁶ At the same time, it is hard to agree with Russian Orientalist S.M. Kudaev who insisted that the wartime distributive nature of Iranian economy was, in a certain sense, more Islamic than Hashemi Rafsanjani’s liberal reforms. At no time did Islam object to the free market if it observed the basic Islamic values and principles.

¹⁷ See: V.P. Tsukanov, “Gosudarstvennoe ekonomicheskoe regulirovanie v Irane: otkhod ot islamskikh printsipov?” in: *Islam i obshchestvennoe razvitiie v nachale XXI veka*, Moscow, 2005, p. 427.

¹⁸ The IRI constitution speaks about “prevention of foreign economic domination over the country’s economy” (Art 43.8).

¹⁹ For more detail, see: V.P. Tsukanov, “Gosudarstvennoe ekonomicheskoe regulirovanie v Irane...,” p. 430.

²⁰ See: N.M. Mamedova, “Islam i razvitiie Irana v nachale XXI veka,” in: *Islam i obshchestvennoe razvitiie v nachale XXI veka*, p. 49.

²¹ See: N.M. Mamedova doubts that the law will be annulled any time soon.

I have already written that not everything the Islamic banks are doing in Iran corresponds to the classical Muslim ideas on usury, even if we admit that the contemporary jafarite legal doctrine is more liberal when it comes to the Shari'a economic rules than some of the Sunni schools. Since the moment the law on usury-free banking came into force, the banks and the authorities have been virtually ignoring the ban on interest-based transactions in their relations. The government borrows from banks and pays interest on its loans. This is not regarded as a violation of the Islamic ban on usury or Art 21 of the Law, which says: "In its dealings with other banks, the CB IRI is not authorized to engage in banking operations which involve usury; nor may the banks engage in such among themselves."²²

In 1999, the Central Bank of Iran passed a decision making it possible to set up banks and insurance companies with 100 percent foreign capital without any limitations on their activities in the free commercial-industrial zones created by the 1993 law.

The situation on the securities market is far from the Islamic ideal, too. For the first time in its history, in July 2002, the IRI issued Eurobonds for 5 years totaling 500 million euros. They are absolutely identical to the Western bonds banned by the Shari'a.²³ In other words, the country has not yet elaborated a consistent policy designed to create and develop an Islamic security market, of which Malaysia is an example.

Economic Islamization left many other important sectors intact: adjustment of the taxation system to the Shari'a was not accomplished at the state level. During the war with Iraq, the Majlis discussed a law on raising certain secular taxes. At the same time, society discussed the question of whether the rates and share of non-Islamic taxes in the country's economy should be increased, if citizens were able to pay religious taxes.²⁴ For example, part of the zakat could be used for jihad—in this case, for defending the country against the aggressor (the Iraqi troops). Muslim taxes, however, have never been made legally obligatory, even though the taxes in Iran were lighter than in Pakistan where the Islamic taxes (zakat and 'ushr) are used to replenish the budget.

The Islamic taxes zakat and khums²⁵ are paid either directly to the mosques or to an Islamic Foundation or any person (mujtahid).²⁶

Sohrab Behdad, an American academic of Iranian extraction, has aptly pointed out: "There is no sign of Islamization of the economy other than the hejab of women workers, and a thriving market for women's robes (manteau) and scarves."²⁷ This might sound like an overstatement, but there is no force in Iran that needs an Islamic economy.

²² For more detail, see: Z. Iqbal, A. Mirakhor, *Islamic Banking*, Washington, 1987, p. 24.

²³ See: A.Iu. Zhuravlev, "Printsipy funktsionirovaniia islamskikh bankov," in: *Islamskie finansy v sovremennoy mire: ekonomicheskie i pravovye aspekty*, ed. by R.I. Bekkin, Moscow, 2004, p. 106.

²⁴ See: N.Iu. Ulchenko, N.M. Mamedova, "Ekonomicheskoe razvitiie i 'islamskaia ekonomika' (opyt Turtsii i Irana)," in: *Islam i obshchestvennoto razvitiie v nachale XXI veka*, p. 32.

²⁵ Khums (Arab.—"the fifth part," syn. "khumus")—originally one-fifth of the spoils of war (ganima) earmarked for the Prophet Muhammad and his relatives. It could be used for state (social) needs. There is the opinion that khums was introduced by the Prophet's grandfather 'Abd al-Muttalib, who discovered treasure buried at the Zamzam well. The legend says that he sacrificed one-fifth to the Almighty and appropriated four-fifths. Later, the khums conception included several taxes and dues (such as tax on extracted natural resources, dues paid by a Muslim who sold his land to a non-Muslim, etc.). According to most Shi'a lawyers, during the "concealment" of the imam, part of the khums can be paid to the most educated and faithful mujtahids or transferred to any person of their choice.

²⁶ Mujtahid (Pers. Mujtehid)—a theologian who on the strength of his knowledge and experience can pass decisions on important Muslim legal issues. Perfect knowledge of the Arabic is expected of him, together with knowledge of the Quran and its tafsirs (interpretations) by heart, as well as at least 3,000 hadiths with complete commentaries. The mujtahid is the highest spiritual authority in the Imamite (Shi'a) school; it is his honorary duty to lead the community during the time of "concealment" of the imam. For this reason, they are highly respected and, thanks to their knowledge, can offer their opinions and pass judgment not only on legal issues, but also on the religious dogmas and the Shari'a principles.

²⁷ See: S. Behdad, *The Revolutionary Surge and the Quiet Demise of Islamic Economics in Iran*, available at [www.usc.edu].

In public conscience inside the country, an Islamic economy is associated either with Banisadr's Proudhonian utopia or nationalization and state support of the mustaz'afin (the dispossessed)²⁸ and not with an efficient mechanism of wealth redistribution.

²⁸ According to the post-revolutionary classification, the Muslim community is divided into the dispossessed (mustaz'afin), prosperous (mustaqbarin), and devil's servants (taghuti).