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- The GUAM Organization for Democracy and Economic Development in Regional and International Dimensions
- Central Eurasia: Politics Today

NATION-BUILDING

PROBLEMS OF CONSTITUTIONALISM
IN THE REPUBLIC OF KYRGYZSTAN

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

The transformation and democratization processes have given rise to several regimes that are difficult to define and cannot be classified in the traditional categories of totalitarianism, authoritarianism, and democracy. Contradictory types of democratic and nondemocratic regimes are creating unusual political systems that can be defined as “hybrid regimes,” “imitative democracies,” or “delegative democracies.” The ambiguity of these regimes is making it difficult to classify them according to the well-known categories. On the one hand, they contain many elements characteristic of an authoritarian regime, while on the other, they appear to be close to democracy. As J. Linz

showed,¹ the authoritarian elements are related to the instability of the political system, the continuous constitutionalization of which has introduced ambiguity into the rules of the game. The democratic elements, in turn, are related to the declared adherence to the democratic idea expressed in constant political revision of the constitutional norms. This situation, which is typical of many states (not only of hybrid, but also of democratic regimes), is manifested very clearly in Kyrgyzstan.

¹ See: J. Linz, “Totalitaryzm i autorytaryzm,” in: *Władza i społeczeństwo. Antologia dziejów z zakresu socjologii i polityki*, Wybór i opracowanie J. Szczupaczyński, Warszawa, 1995, S. 325.

Historical Prerequisites

The political system that has been forming in Kyrgyzstan for 16 years is akin to a “mobile, chaotic” regime. Amendments and addenda were made to the Constitution almost every two years (1994, 1996, 1998, 2001, 2003, 2006, 2007) and almost every time the interrelations among the branches of government and their powers underwent dramatic changes. All the novelizations,² however, were introduced in their own “particular” way—with violation of the constitutional procedures for making amendments and addenda. Moreover, the political system was essentially not regulated by the Constitution, but by the law for putting the Constitution into effect. This law, in turn, established entirely different, and at times contradictory, adaptive-temporary provisions. This was compounded by the differences in the Constitution texts in the Kyrgyz (state) and the Russian (official) language. Theoretically, the Constitution in the Kyrgyz language dominated and was considered the main document. In practice, however, despite the principal contradictions in content, both versions were in effect at the same level.³ A situation developed in which the formal-legal side of political life consisted of several layers (or elements): constitutional, legislative, presidential decrees with statutory force,⁴ and by-laws. Each layer was horizontally and vertically unstable and mobile, frequently contradicting the others, and seemed to live a life of its own.

At the same time as this chaotic structure took shape, a constitution cult and campaign aimed at respecting the law came into being. In the interim between one novelization and the next, the government called on society to participate in discussing the drafts of the Constitution. The draft was discussed everywhere: in labor collectives and at community-based citizen gatherings. Then these discussions were widely covered in the mass media. The Constitutional Assembly was responsible for summing up the discussion and drawing up a draft of the new Constitution. This Assembly was formed by the president. It had a special status, since the constitutional norms not only did not envisage this type of novelization of the Constitution, nor did they mention the Constitutional Assembly at all. Despite its illegal functioning, the presidential camp was so strong that no one objected to the Assembly’s activity. It appeared to be an absolute necessity in keeping with the “*principles of openness and taking the fullest account of public opinion.*”⁵ It consisted of individual members of the legislative, executive, and judicial power branches and representatives of political parties, nongovernmental and non-profit organizations, the People’s Assembly of Kyrgyzstan, public associations, and the press. Discussions about the draft of the new version of the Constitution were held with a fair degree of openness. Depending on the novelization, some Constitutional Assemblies were formed, and then others. Sometimes new bodies were created (for example, the expert working group in 1998). The membership of the Constitutional Assembly also frequently changed. Moreover, a multitude of drafts were published and offered for discussion at the same time. In this way, the feeling was created that the entire republic was involved in discussing the constitutional amendments. This gave rise to the hope that the impending changes would be democratic. But this temporary pluralism was only of outer decorative significance. By skirting around or permitting only a sprinkling of oppositional voices, the novelizations were mainly introduced in keeping with an established scenario. As a result, the outer chaos of the legal system served to strengthen presidential power, while the constitutional instability helped to stabilize the regime.

² Novelization (from the Ital. *novella*, lit. *novelty*)—the introduction of new provisions, amendments, and addenda into the legislation.

³ See: R. Esembaeva, “Konstitutsiia po-kyrgyzski...,” *Obshchestvennyi reiting* (Bishkek), No. 44, 18 November, 2004.

⁴ Presidential decrees with the force of law should be categorized separately, since they differ from laws adopted by parliament.

⁵ Decree of the Kyrgyzstan President No. 235 of 26 August, 2002, On Measures for Preparing Constitutional Reform in the Kyrgyz Republic (in the version of Decree of the Kyrgyzstan President No. 234 of 8 September, 2002).

Significant features of this political experiment were the difficult economic situation, the absence of any democratic heritage⁶ or corresponding political culture, both in the government and in society, the weakness of the democratic opposition before 1991, and the lack of any alternative to the communists. This was all impounded by the country's dependence on Moscow and on its influential nondemocratic neighbors, its lagging political development, and the absence of a civil society and personnel for carrying out democratic reforms. Despite the formal recognition of democratic norms, constructive changes did not take place, political practice remained the same, and the Constitution and legal science continued to exist in an embryonic state. This was inherited from Soviet times, when the Center monopolized all the branches of legal science, and the Union republics engaged only in a few of its problems. This also led to the lack of personnel, a scientific base, and the holistic development of the reforming of the legal system inherited from the former Soviet Union. During the first years of independence, the state bodies did essentially nothing to bring the Constitution and new laws into harmony with the legislative regulatory acts remaining from Soviet times; and no analysis was carried out of which legislative regulatory acts of the Union legislation were effective and which were not.⁷ Nor was an integrated system of development drawn up later either. The level of legal science fell in proportion to the increase in university law departments. All of this together served to legitimize the current regime.

Violation of the principle of division of powers into three branches also affected the system's instability. Division of powers into the legislative, executive, and judicial branches was officially announced as early as 1990 in the Declaration on the State Sovereignty of the Republic of Kyrgyzstan. But the government delayed this reform. Other legislative acts served as a loophole that permitted posts to be combined. For example, according to the laws regulating the status of people's deputies, the latter could perform their duties while still carrying out their production or service activity. As a result, deputies of the Zhogorku Kenesh (ZhK) simultaneously worked or occupied high posts in the executive and judicial bodies of power. Beginning in 1993, the Constitution also perfunctorily declared division of powers. This time, adoption (along with the Constitution) of the Law on Putting the KR Constitution into Effect retained the practice of combining posts.

Later, open permission to hold combined posts was replaced with the concentration of presidential power, bringing the Kyrgyz system closer to the conception of O'Donnell's "delegative democracy." In this way, the previous obvious violations of the Montesquieu principle were retained, but now in veiled form. Adherence to the democratic rhetoric "*division of powers*" functioned at the same time as the need for an "arbitrator," a "*symbol of the nation and state power, guarantor of the Constitution, human and citizen rights and freedoms.*"⁸ He (the arbitrator) should be above group interests, overcome factionalism, and smooth out regional-clan antagonisms. The president became this "arbitrator." His special place in the power system was justified by the supremacy of universal trust. According to populist rhetoric, he was the only one chosen by the republic's entire electorate. The president's delegative mandate made it possible to regard him as the main "custodian" and "adept" of the people's interests. This populist method of legitimization was reflected in the constitutional order. The president as arbitrator and depository of the people's will stood above all the power bodies. Without directly belonging to any one of the power branches and being guarantor of the Constitution, he held the executive, legislative, and judicial bodies in complete or relative depend-

⁶ Local authors introduced the concept "nomadic democracy" or "tribal democracy." This was supposed to emphasize the regional (local) nature of the democratic heritage and not its adaptation to Western culture. In this text, however, democratic heritage means the heritage of liberal democracy.

⁷ See: "Konstitutsia KR—osnova pravovoi reformy," *Res Publica* (Bishkek), 3 July, 1994, p. 3.

⁸ According to Art 42.2 of the 1996 version of the Constitution, the KR President was a symbol of unity of the nation and state power and the guarantor of the KP Constitution and human and citizen rights and freedoms. This regulation was retained in the novelizations of 1998, 2001, 2003, 2006, and 2007.

ence. These presidential claims led to the courts and the legislature being only a “*hindrance, a burden to the advantages that the status of a democratically elected president provided on the domestic and international arena.*”⁹

The president’s big or small opponent,¹⁰ depending on the political situation, was the parliament (or part of it).¹¹ They came to loggerheads mainly over constitution- and law-building. This struggle was informal in nature, whereby both sides resorted to institutionally unenforced means, such as mudslinging, blackmailing, and pressure. The head of state naturally tried to settle the crisis situations that periodically arose. Since he (and not the relatively autonomous powers) was the main initiator in carrying out policy, the decisions on novelization of the Constitution were made in a hurry. Inconvenient legislative initiatives were blocked by presidential decrees that overlaid them. But this did not lead to the feverishly adopted decisions being implemented with any certainty. On the contrary, hasty biased decrees and chaotic maneuvering increased the likelihood of mistakes and risky methods of putting them into practice.

In the conflict of interests between the parliament and president, the judicial system did not occupy an independent position and did not perform the functions of arbitrator between the branches of power entrusted to it. Disputes over interpretation of the Constitution and nation-building were resolved depending on the political situation. The boisterous campaigns aimed at reform of the judicial system, building a law-abiding state, and adhering to the constitutional norms and “letter of the law” remained at the level of political rhetoric. The indicated attempts at reform did not change the status of the judicial system, which did not become an independent power branch, despite the declarations. This situation was a direct result of the activity of both the president and the parliament, which did not glean any benefit from an independent judicial power. There were at least two reasons for this. On the one hand, corruption became part of the game (for example, in privatization, the misappropriation of loans, etc.), the disclosure and legal investigation of which was not to the advantage of both power branches. On the other hand, this ensued from the normative legal chaos, under the conditions of which judicial decisions regarding the legitimacy of the Constitution were also decisions on the government’s legality. Under these conditions, a “controlled” court would have ensured predictability and guaranteed the government’s authority.

The Constitutional Court (CC) also had a specific role to play with respect to the authoritarian stabilization of Kyrgyzstan’s political order. According to Art 82 of the Constitution (in the 1993, 1996, 1998, 2001, 2003, 2006 [Art 85], and 2007 versions), the CC was the highest body of judicial power for protecting the Constitution; it deemed laws and other regulatory legal acts unconstitutional if they contradicted¹² the Constitution; it settled disputes relating to the validity, application, and interpretation of the Constitution; and it issued conclusions on the amendments and addenda to the Constitution. But in practice, the CC did not participate in the novelizations of the Constitution, which were carried out by means of a referendum or, in extreme situations, were adopted by the parliament. The situation that developed was explained by the lacuna in Kyrgyz legislation,¹³ when the presidential administration was the real interpreter of the Constitution and active initiator of nation-building.

⁹ G. O’Donnell, “Demokracja delegacyjna,” in: *Przyszłość demokracji*, Wybór tekstów, wybór i wstęp P. Śpiewak, Fundacja Aletheia, Warszawa, 2005, S. 176.

¹⁰ The executive power was not included in this analysis, since it depended on the president and was the actual executor of his policy.

¹¹ The ZhK was not a monolithic body. In almost all the ZhK’s convocations, some of the deputies projected themselves as supporters of the president’s policy, while others posed as its opponents. The oppositional-minded deputies closely cooperated with the extra-parliamentary opposition.

¹² In the versions of the Constitution of 1993, 1994, 1996, 1998, and 2001, the legislator meant “*discrepancies* with the Constitution,” and in the versions of 2003, 2006, and 2007 “*contradictions* with the Constitution.”

¹³ See: K.S. Sooronkulova, B.O. Tungatarov, “Konstitutsionnyi protsess v Kyrgyzskoi Respublike (1991-1998)” (from personal archives).

The Constitutional Court had a double role to play. As an independent body, it performed a fictitious-decorative function on the political arena. But at the same time, the CC's support of the president's policy was of great significance. It provided guarantees and additional legitimization at the legislative level. The CC confirmed the constitutionality of extending the powers of President Askar Akaev to a third term. Nor did it question the Bakiev-Kulov tandem or legitimacy of all the novelizations of the Basic Law.

The Genesis and Evolution of Instability

Askar Akaev's advent to power as the President of the Kyrgyz S.S.R., on the basis of alternative elections, departed from the typical model of Central Asian legal succession, when the former first secretary of the Central Committee of the Communist Party was always the person to take the post of president. At that time, the gradual concentration of executive power, followed by social, economic, and political issues (during transition to market relations) in the hands of the president, was regarded as a real need. It was supposed to weaken the role of the local conservative communists and of Moscow.¹⁴ At the same time, due to the division of powers and the weakening of the communist party's role, the Supreme Soviet of the Republic of Kyrgyzstan of the twelfth convocation unexpectedly found itself at the top of the political Olympus. In the Soviet system, it was a decorative body that unconditionally adopted laws. This meant that the overwhelming majority of its members was not ready to work under the new conditions.

"At the first session of the Supreme Soviet, it took only three hours to adopt the laws on private property, rental, and land use, while no one considered the fact that the laws should be understood and discussed article-by-article," recalled Ch. Baekova.¹⁵ The deputies had very little clue about how to carry out legislative activity and had no experience in how democratic power institutions functioned. The deputies accumulated the necessary experience as they performed their political duties, which had a negative effect on the efficiency of the parliament's work. The number of legislative acts increased endlessly and there was no integrated strategy or legal policy, which resulted in the laws adopted either functioning poorly or not functioning at all. Despite the shortcomings inherent in almost every post-Soviet legislative body, this parliament was more pluralistic than all the previous and subsequent Kyrgyz parliaments. The decisions it adopted played an important role in the transition from the communist system to democratization.¹⁶

On 5 May, 1993, the Supreme Soviet adopted the KR Constitution after completing the constitutional reform begun in the fall of 1990 by enforcing democratic standards. The Constitution declared Kyrgyzstan to be a sovereign, unitary, democratic republic built on the foundations of a secular state ruled by law. The Constitution introduced new principles for organizing state power and the electoral policy, defined the basic status of man and citizen in the republic, wrote diversity in forms of property into law, the priority of human rights, and the division of powers into the legislative, executive, and judicial branches. Legislative power was represented by a one-house parlia-

¹⁴ See: M. Sherimkulov, "Stroit demokraticeskoe obshchestvo s chistogo lista nevozmozhno," *Svobodnye gory* (Bishkek), No. 6, August 1991, p. 4.

¹⁵ "I believe in a time when everyone will live morally." Interview with Ch. Baekova—chairman of the Standing Supreme Soviet Commission of the republic on legislation, lawfulness, and law and order. The interview was held by G. Deviatov, *Svobodnye gory* (Bishkek), No. 6, August 1991, pp. 2-3.

¹⁶ See: U. Chotonov, *Suverennyi Kyrgyzstan: vybor istoricheskogo puti*, Bishkek, 1995, p. 66; J.J. Wiatr, *Europa pokomunistyczna. Przemiany państw i społeczeństw po 1989 roku*, Scholar, Warszawa, 2006, S. 258.

ment, the Zhogorku Kenesh (ZhK). Executive power was executed by the government and the local state administration. Judicial power consisted of the Constitutional Court, Supreme Court, Higher Arbitration Court, and courts and judges of the justice system. However, the adoption of these regulations did not lead to either division of powers actually being carried out or to the Constitution coming into real effect.

Copying the main regulations and institutions of the old liberal democracies did not guarantee their adaptation to Kyrgyz conditions. Constitutionalization of democracy and the chances of its stabilization during withdrawal from the communist system depended to a certain extent on the transition to the market economy. In so doing, it was very difficult to associate the economic reforms with democratic prospects,¹⁷ which became clearly manifested in a situation where division of powers was not complete. By performing the duties of both executive and legislative power, “deputy-bureaucrats” possessed double powers and twice as many opportunities. On the other hand, as representatives of executive power, they were subordinate to the president. When the Constitution came into force in 1993, this meant re-elections and the end of combined posts. A consensus was found by adopting the Law on Putting the KR Constitution into Effect, which envisaged a gradual transition to the requirements of the Constitution.

The pathologies of the economic reform had significant political consequences. The policy of the president, executive power, and “deputy-bureaucrats” regarding the privatization of state property, the extraction of mineral riches, and the acquisition of loans was severely criticized by the parliamentary opposition. A parliamentary commission was formed to investigate the democrats’ corrupted policy. The results of its work placed part of the parliament, the government, the prime minister, and the president under fire. The political conflict (based on the precedent created by Yeltsin in Russia and Nazarbaev in Kazakhstan) was also settled by nonconstitutional means.

When striving to settle the crisis situation, President Askar Akaev questioned the legitimacy of the Constitution of 5 May, 1993. He announced some very serious intentions, justifying them by the fact that the Constitution was adopted by the parliament and not by the people. In his decree of 5 September, 1994, he called for “*holding a referendum to reveal the will of the people regarding the amendments and addenda to the KR Constitution aimed at ensuring real people’s power, strengthening the guarantees of the KR Constitution, and improving the interaction among the state power bodies.*”¹⁸ Referring to universal trust, rhetorical “*guarantee of real people’s power,*” and warning about existence of damaging information (for example, on certain deputies), he took decisive measures, forcing his opponents to retreat. As a result, in a very short time, the government resigned, the parliament was disbanded, and judicial power proved illegitimate. The only legitimate body remaining was the head of state.¹⁹

Again ignoring the constitutional provisions, the president issued a decree of 21 September, 1994 On a Referendum on the Amendments to the KR Constitution. According to the decree, “*two democratic amendments*” (Item 2) were to be put up for discussion at the referendum. This formulation was supposed to conceal the true meaning and importance of the amendments being introduced. In actual fact, the changes concerned not two issues, but five chapters (3, 4, 5, 6, 8) and more than a dozen articles, and meant complete review of the Constitution.²⁰ In particular, the president suggested introducing a two-house parliament. He also brought up the question of the legal possibility of putting up the constitutional novelizations and other “*important issues of state life*” for discussion at the referendum (at

¹⁷ See: J.J. Wiatr, *op. cit.*, S. 114-120.

¹⁸ Decree of the KR President No. UP-226 of 5 September, 1994, On Ensuring Political Stability in the Kyrgyz Republic and Urgent Socioeconomic Measures.

¹⁹ See: B. Shamshiev, “Osennie ‘igry,’” *Res Publica*, 22 September, 1994, p. 2.

²⁰ See: M. Ukushov, “Krizis konstitutsionnoi zakonnosti v Kyrgyzstane,” *Res Publica*, 6 October, 1994, p. 7.

that time he usurped this right).²¹ In the event the referendum yielded a positive result, legislative power, divided into two houses, would become a weak and obedient body. In turn, the head of state would acquire the legal power to decide questions regarding constitutional amendments and any other disputed aspects by means of a referendum.

When announcing a constitutional referendum in his decree of 21 September, 1994, Askar Akaev referred as early as the introduction to a rhetorically imaginary people: "...the highest indirect expression of power of the people of Kyrgyzstan is universal voting aimed at strengthening the foundations of the constitutional system of the KR, improving the activity of the legislative power, and ensuring fuller account of national and local interests in the republic's highest representative body..."²² Only later did he refer to Art 1.5, Art 46.2 and Art 46.5 of the 1993 Constitution, on the basis of which he issued a decree on amendments to the Constitution.

But the said constitutional provisions did not envisage the president's right to put up for discussion or announce a referendum on making amendments and addenda to the Constitution. Moreover, Art 96 of the Constitution clearly defined that amendments and addenda to it should be adopted by the parliament (as proposed by the president) by no less than one third of the ZhK deputies and no fewer than 300,000 citizens. Proposals on making amendments and addenda to the Constitution were to be examined by the parliament after the Constitutional Court submitted its conclusion, no sooner than three months, but no later than six months from the day they were made. The formulations of the amendments and addenda to be made to the Constitution could not be changed during their discussion in parliament. No other way of novelizing legislation was envisaged. If we are dealing with the right to initiate a referendum, the president (according to Art 10 of the 1991 Law on Referendum in the KR) occupied the last place in the hierarchy of those who have the right to initiate referenda—after the citizens and the ZhK. The Constitution, however, ambiguously set forth that "the president may bring up issues of state life for discussion at a referendum" (Art 46.2 and Art 46.5).

The president's striving for free manipulation of constitutional order was expressed in limitation of the term for introducing constitutional amendments. Constitutional amendments should be made within an extremely short time. According to the presidential decree of 21 September, 1994, the referendum should have been held within a month (!), on 22 October. Askar Akaev made sure in advance that the universal voting would yield a positive result. When making his decision on the referendum, he issued a decree the same day on Membership of the Central Election Commission for Holding a Referendum and Election in the KR. In it (again with no legal grounds for this), the president appointed members who were most favorable for him. They consisted, according to Soviet tradition, of "representatives" from the political parties, associations, and organizations of blue- and white-collar workers, farmers, businessmen, young people, veterans, and women; from creative unions, the People's Assembly of Kyrgyzstan, and national-cultural centers. Implementation of the president's ideas was also accompanied by the low level of legal consciousness and legal culture, limited access of the opposition to influential national mass media, and, finally, support of the presidential reforms by the heads of the local administrations, heads of state enterprises, organizations, and institutions.

Despite the fact that the president freely interpreted the legal regulations, his initiatives were not regarded as clear violations of the law. In contrast to other post-Soviet Central Asian republics, Akaev's

²¹ Correspondingly, in the president's decree, this point was formulated as follows: "Amendments and addenda to the KR Constitution, KR laws, and other important issues of state life may be brought up for discussion at a referendum."

²² Decree of the KR President No. UP-245 of 21 September, 1994, On a Referendum on Amendments to the KR Constitution.

Kyrgyzstan always made sure its violations remained within a democratic framework. The power bodies tried to preserve the semblance of constitutionality and referred to constitutional legitimacy even when they were violating human rights. Lawyers exerted great effort to ensure this, always taking care to find other legislative acts that were more in keeping with their demands. Supremacy of the interests of the people, who were represented by the president, prevailed over the idea of constitutionalism understood as a set of limitations on realizing the will of the majority.

Askar Akaev's constitutional novelizations (1994, 1996, 1998, 2001, and 2003), despite the differences in the sociopolitical aspects of their adoption, had common features and were conducted according to a specific pattern. First, all the constitutional amendments and addenda were introduced by means of referenda. Before each of them, the impending changes were pompously declared as another step toward democratization. The national-wide discussions were initiated in order to hold a "dialog with the opposition and ensure the triumph of people's power," and a Constitutional Assembly, formed by the president himself, was created for drawing up a draft of the addenda and amendments to the Constitution. Although at that time neither the Constitution, nor the legislation envisaged the institution of a Constitutional Assembly. Theoretically, the draft it prepared should be brought up at a referendum and, consequently, all attention was concentrated on drawing it up. However, it was not a draft "zealously discussed" and published by the Constitutional Assembly that was put forward for consideration at the referendum, but a version prepared behind closed doors by the presidential administration. All of this took place in a very short amount of time (between the time the referendum was announced to the day it was held) and was characterized by unclear formulation of the questions in the voting bulletin, tapping of the administrative resource, and manipulation of the elections.

The opportunity to carry out radical constitutional reform aimed at changing the existing system of governance appeared when Askar Akaev fled the country in March 2005. The opposition came to power on the wave of the ensuing mass unrest. For the first time, a Constitutional Assembly was created that was instituted by the parliament and not by the president. At that time, the elite that acquired power made all kinds of promises about cardinal reforms. According to the agreements among the political forces, if K. Bakiev won the presidential election, he would begin carrying out constitutional reform through the Zhogorku Kenesh. The new version of the Constitution was to make the president responsible for foreign policy and the security and defense structures and withdraw from his competence any bodies that duplicated the government's functions. The new system of state power organization was to expand the authority of the prime minister. After constitutional reform, holding referenda on the president's initiative would only be possible with the consent of the Zhogorku Kenesh.²³

But pluralism did not last long this time either. After the presidential election, at which K. Bakiev received 88.71% of the votes, the democratic reforms curtailed. The new president did not rush to fulfill his promises, and constitutional reform was put off until a later date. The parliamentary and extra-parliamentary opposition expressed open protest. The six-month political bargaining ended after a week-long open-ended meeting at which the demand for immediate constitutional reform was put forward. In this way, on 9 November, 2006, a new version of the Constitution was adopted (as the result of pressure on the president) with incredible haste and in incomplete form. However, referring to the imperfection of the new wording of the Constitution, the government

²³ See: "Pobeditelem stanet narod." Statement by Felix Kulov, *Slovo Kyrgyzstana*, No. 49 (21811), 17 May, 2005; K. Mambetov, "Tak diktuet vremia," *Slovo Kyrgyzstana*, No. 49 (21811), 17 May, 2005; F. Kulov: "Adilet biilikke adilet shailoolor arkyluu gana kelyygo bolot" (A Fair Government Can Only Come to Power through Fair Elections), *Agym* (Bishkek), No. 51, 1 July, 2005, p. 8.

detained its publication for a month. And the November Constitution did not last for long either. On 30 December, K. Bakiev brought up the question of new amendments to the Constitution at a meeting of the Security Council. This decision was evidence of more usurpation of his powers, since from the legal standpoint consideration of constitutional issues during Security Council meetings was not allowed. On the same day, the parliament (blackmailed by the president's entourage with the prospect of disbandment) voted for introducing seven amendments into the Constitution. However, two weeks later (on 15 January, 2007), the president did not sign the version adopted by the parliament, but an entirely different one, in which amendments and addenda to the Constitution were introduced into more than 40 articles. Novelization was nevertheless carried out. But in practice it was not approved by the political players and did not acquire the necessary legitimization.

Both novelizations of the Constitution carried out as a result of pressure on the president on 9 November, 2006 and on the parliament on 30 December, 2006 came as a complete surprise to everyone. Initiated at first by the opposition, and later by the president's entourage, they were discussed, written, and adopted by the parliament in almost one day. The amazing ease and speed with which the Constitutions were amended made it impossible to consider the legal act being created, thus turning the Constitution into a weapon of the political forces. This ensued not only from the undermined importance of legal regulations, but also from other informal stable norms and rules which until now regulated public relations (for example, patron-client relations). The unconcealed legislative nihilism and increased use of double standards were justified now by the revolution, now by national will, now by the forced or temporary situation. In this chaotic system, where no one felt compelled to play by the rules of the game, the ruling group, driven by a sense of self-preservation, adopted entirely unpredictable decisions; it provoked the conflict itself in order to later settle it unconstitutionally. The president "*says one thing today and does another tomorrow, and all of his decisions are dictated by the present moment.*"²⁴ This quotation precisely expressed how the political actors themselves perceived the situation. As a result, suspicion and mutual mistrust became aggravated and there were frequent political clashes between the supporters and opponents of the existing regime, as well as between the groups within the government and the political groups united by regional-clan principles.²⁵ A situation in which none of the political players fulfilled their promises and did not keep their word did nothing to promote reaching a stable agreement or drawing up clear rules of the game.

In this unstable situation, the idea of "*supremacy of the Constitution*" as an important legitimizing formula of Akaev's era was no longer a necessary attribute of political rhetoric. The two above-mentioned novelizations were adopted with blatant violations that had never been encountered before. In this respect, they represented more a temporary political agreement than a legal act. Constitutions adopted by means of deceit and blackmail cannot be regarded as documents of consensus. Since they were consented to under high political pressure, they were only documents of temporary stabilization, and not agreements among the main political forces on stable rules of the game. With its insurmountable legal contradictions, the January novelization also proved as temporary as the rest.²⁶

²⁴ Answers by T. Ibraimov, see: "Nash opros. Opros provel S. Chernov," *Delo '...*, No. 6 (673), 21 February, 2007.

²⁵ See: T. Koychumanov, J. Otorbaev, S.F. Starr, *Kyrgyzstan: put vpered*, Johns Hopkins University-SAIS, Washington, 2005, pp. 8-13.

²⁶ See: "The New Constitution: Politics or Law? Roundtable Transcript," in: *Kyrgyzstan Brief*, Institute for Public Policy, Bishkek, 2006, Issue 7, pp. 11-17.

Novelization of the Constitution: General Characteristics of the Amendments

All the constitutional reforms were adopted with the head of state predominating over the parliament, government, and judicial power. They changed many elements of constitutional order, apart from one—presidential power. Despite the frequent amendments made to the Constitution, the president retained significant legislative powers for forming state bodies and appointing and dismissing officials. Moreover, every time the method for imitating a weakening of the president's actual powers changed. They were either shifted to a different section, creating the semblance of alleviating the "President's Powers" section, or formulations, such as "with the consent of the parliament," "expression of mistrust by the parliament," were added. In this way, all the versions of the Constitution retained a lack of consistency between the president's broad powers and his irresponsibility. The president had complete control over the executive power branch. Whereby the prime minister, who only has nominal power, held responsibility for all the failures of the president's policy. Weakening of the parliament was also a characteristic feature of almost all the novelizations. It was expressed in limitation of the ZhK's powers, on the one hand, and the president's domination in legislative activity, on the other. This was all impounded by the continuous dependence of judicial power.

One of the characteristics of the political situation in Kyrgyzstan was the extremely complicated and hidden game of stability and change, and the differences between the legal provisions and practical activity. In practice there was no officially declared hierarchy of regulations. On the one hand, according to Art 12 of the Constitution (in all of its versions), it had supreme legal force and was directly in effect in the republic. Constitutional laws, laws, and other regulatory legal acts were adopted on its basis. On the other, Kyrgyz legislation subtly wrote an entirely different hierarchy of regulations into law, according to which the president's decrees had the force of law and, consequently, did not refer to by-laws. But it was not clear to which laws they referred—to constitutional or ordinary laws. Nor was anything said about them being issued on the basis and in pursuance of the Constitution and laws of the Kyrgyz Republic. According to the text and meaning of the Constitution, the supremacy and force of the president's decrees were more significant than the supremacy and force of the laws. From this it also followed that the president had the power to enforce essentially new legal rules that directly regulated social relations, in other words, to "make" the law (Art 46.5 and Art 46.6; Art 47; Art 68.3). Moreover, it was not mandatory for a law to be published in order for it to be endowed with legal force. Art 67 of the Constitution very subtly said that a law comes into force ten days after it is published, unless otherwise envisaged by this law or by the law on the procedure for putting it into effect. In this way, the legislator reanimated one of the important regulations of Soviet times. This legalized the possibility of regulating important aspects of legal relations by means of unpublished acts "for official use."

C o n c l u s i o n

Intensified exploitation of the constitutional reforms served as actual reinforcement of the ruling elite. The frequent changes in the rules of the game, feeding the illusion of democratization, and the ongoing search for an "ideal" constitution, as well as its easy and rapid novelizations, gave rise to an unusual political situation. The law was intensively applied for all outward appearances and the

supremacy of the Constitution was cultivated, but all these legal subtleties did not have any great meaning in practice. The protection of interests depended not on the force of the law, but on political ties and the ability to bring pressure to bear both on partners and on opponents. The new legal system was based on personal ties, interrelations along patron-client lines, and unofficial rules and institutions. When problems arose or negotiations reached an impasse, unofficial rather than legal mechanisms were resorted to. Meetings, civil disobedience campaigns, and political blackmail were employed; even criminal pressure was not outside the realm of possibility.²⁷

As already stressed, during Akaev's time, the Constitution was the main component of the democratic rhetoric. Even if the supremacy of the constitutional provisions was not expressed in practice, great attention was given to creating its illusion. Respect for the law and democratic norms was intensified rhetorically. Askar Akaev, being the only main center of power, could carry out all the novelizations very subtly and, although he violated the legislation, he retained the semblance of constitutionality. This made it possible to make selective use of the legal regulations, on the one hand, and, without leading to degradation, adhere to the meaning of the law at a relative level, on the other. This helped to maintain a sense of the importance of the law in society as the regulator of sociopolitical relations.

The attitude toward the Constitution and its novelization changed along with the arrival of the new government in March 2005. The new team had a flippant attitude toward legal procedure, which was openly used as a tool in the political struggle. During novelization, violations were no longer concealed, they became more risky and even more unstable. Legal vocabulary and primarily the constitutional dominant disappeared from the political rhetoric. An ideal example of this is the following fragment from a speech by President K. Bakiev, in which he noted: "...I promised to get rid of authoritarian rule. Today we have done that without waiting to make amendments to the Constitution."²⁸

Insufficient respect for the law was inherited from the previous system, on the one hand, while the new government that came to rule the country by means of Askar Akaev's overthrow and in so doing tried to preserve his regime had extremely low legitimization, on the other. But K. Bakiev was no longer the only main center of power and was unable to carry out the policy of his predecessor. In addition to him, there were other relatively autonomous political forces in the political sphere. They competed in the fight for the relatively limited resources. This situation, in which the political forces were not ready to cooperate and could only enter into temporary pacts, promoted degradation of state power, constant changes of the government, unpredictable political decisions, and aggravated instability. Corrosion of the Kyrgyz legal system, the unsatisfactory nature of the legislative acts, and their mutual contradiction greatly complicated their application and increased the unwillingness to use the force of the law even more.²⁹ At the beginning of Bakiev's rule (in contrast to Akaev's time), intense degradation of the meaning of the law began. Nevertheless, although this is very difficult, the constitutional instability continues to be a tool for stabilizing presidential power.

²⁷ See: K. Hendley, "Rewriting the Rules of the Game in Russia: The Neglected Issue of the Demand for Law," *East European Constitutional Review*, Vol. 8, No. 4, Fall 1999, pp. 89-92.

²⁸ Speech by the President of the Kyrgyz Republic K. Bakiev at a meeting with representatives of political forces and civil society, 27 October, 2006.

²⁹ See: K. Hendley, *op. cit.*, pp. 89-93.

STAGES AND SPECIAL FEATURES OF THE ADMINISTRATIVE REFORMS IN THE REPUBLIC OF UZBEKISTAN

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I. Introduction

For more than 16 years, Uzbekistan has been trying to modernize its sociopolitical and economic system. This process is encompassing all spheres of public life, particularly the administrative structures. It should be noted that reform of state administration is the most important prerequisite for enabling transformation of the political system as a whole. Uzbekistan's vast and cumbersome bureaucratic machinery is hindering implementation of the reforms in the republic.

The prevalent bureaucratic arbitrariness in the economic sphere could lead to the monopolization of property, the creation of non-market mechanisms for regulating the activity of economic agents, and a reduction in the inflow of investments into the country. Stagnation of the administrative reforms in the political sphere is delaying the adoption of progressive laws, blocking the implementation of the decisions taken, promoting the formation of corporate groups among government officials, and making it impossible to efficiently regulate certain social processes. Bureaucratic arbitrariness in the social sphere can hinder the implementation of various social programs, which might later discredit the state bodies. In order to analyze the problems and prospects of administrative reforms in Uzbekistan, we should take a look at the main conceptual models of efficient administration.

The idea of forming an efficient administrative system goes way back into the distant past. It generates, we feel, from man's need, as a social being, to provide himself with efficiently organized administration. This was precisely why, according to many academics, the first political studies were of an applied nature. It is interesting to note that one of the oldest conceptions of administration was developed in China, since it was precisely that model which presumed the formation of a hierarchal system of administration, as well as clear delimitation of powers. These two main aspects of the Chinese administration model point the way to forming the rudiments of a rational bureaucracy. But in contrast to the contemporary versions, the purpose of the Chinese administration model was not to resolve social problems, but to serve the emperor. At the end of the nineteenth-beginning of the twentieth centuries, new administration models began to appear aimed at resolving social problems. These models started with Max Weber's conceptions. It was precisely his conception of "rational bureaucracy" in the 20th century that led to the appearance of new administration models. Different administration models were formed within the framework of such schools and trends as the classical school, the school of human relations, structural-functional trends, and so on.

It is not our intent in this article to reveal the essence of the conceptual models of efficient administration, since this is not part of our study, instead we will only take a brief look at the main aspects of these models in the context of their efficiency by identifying the things they have in common. This comes from the practical need to understand what the country should gain during the administrative reforms.

So we feel that an efficient administrative system should have the following characteristics:

1. Professional government officials;
2. Clear delimitation of powers;
3. Non-misappropriation of office property by civil servants;
4. Civil servants should have personal freedom and only be obliged to perform "impersonal" duties;
5. A corporate spirit;
6. Motivation models in administration and their practical implementation;
7. The administrative structure should be able to intensively adapt to the dynamically developing world;
8. Close interaction between the government officials and the world around them;
9. A horizontal system of administrative relations.

Of course, it is very difficult to ensure that all the characteristics noted are achieved, but they can be partially accomplished and forms the basis for building a democratic and law-abiding state. Consequently, if Uzbekistan has chosen to build such a state, it will inevitably encounter the need to remove the dysfunctional elements that exist in its administrative system as it moves in this direction. This article aims to analyze the problems and prospects of the administrative reforms currently being carried out in Uzbekistan.

II. Administrative Reforms in Uzbekistan

Within the framework of the reforms being carried out in Uzbekistan, there were plans to cut back 45,000 civil servants, which constitutes more than 22% of the total size of the state and economic administrative machinery.¹ The first to comment on this decision by the government was Vice-Premier R. Azimov. In his opinion, these measures will save 40 billion sums (the money unit in Uzbekistan) a year. This will result in Uzbekistan having the most compact and efficient administrative system of all the countries in the post-Soviet expanse. According to the Minister of Finance, cutting back number of employees in the state and economic administration bodies will reduce their ranks to 1.6% of the total working population. According to this index, Uzbekistan will have six civil servants per one thousand people, which will be the lowest index among all the CIS countries. For comparison, this index amounts to 19 in Kazakhstan and to 22 civil servants per one thousand members of the population in the Russian Federation. During a briefing, R. Azimov noted that within the framework

¹ See: I. Karimov, "Our Main Task is to Strengthen the Boundaries Reached and Comprehensive Continuation of the Reforms," *Report at the meeting of the Cabinet of Ministers* devoted to the results of socioeconomic development in 2003 and the main trends for intensifying the economic reforms in 2004, 5 February, 2004 (in Uzbek).

of the administrative reform, there are 20 high-ranking leaders among the civil servants of all different ranks due to be laid off.² We will remind you that this major stage of the administrative reforms in Uzbekistan was preceded by two presidential decrees: *On Improving the System of Republic State Administration Bodies* and *On Improving the Economic Management System*. In keeping with these documents, 27 associations, concerns, and companies are being reformed or eliminated. As a result, only 13 ministries, 11 state committees, 9 agencies, 7 centers, and 7 inspection services will remain in the state administration. Reorganization will affect such branches as machine-building, the agro-industrial complex, the manufacture of consumer goods, construction, transportation, and commerce.³

In correspondence with the administrative reforms, a decision of the Cabinet of Ministers was adopted on 5 January, 2004 *On Cutting Back the Administrative System*. I would like to look at its most important aspects in more detail.

1. In the interests of raising management efficiency, it is recommended that creative funds, trade unions, and public associations financed by membership fees review their payroll on the basis of the proposals by the Republican Commission for Intensifying the Administrative Reform and Improving the Economic Management Structures and establish the maximum number of management staff in their structures.
2. Beginning in 2004, the Ministry of Finance should register the payrolls and provide an estimate of the expenses of the state-financed institutions and organizations.
3. Within one month, regulations for using the funds liberated due to cutback in the number of employees of the administrative machinery to provide material encouragement of highly qualified employees should be drawn up and duly approved.
4. The Republican Commission for Intensifying the Administrative Reform and Improving the Economic Management Structures (R. Azimov) should establish control over reducing the size of the administrative machinery in all state committees, departments, and economic management bodies envisaged by this decision and report the results to the Cabinet of Ministers.⁴

Under the administrative reforms carried out in Uzbekistan, one deputy out of three, for example, was laid off in the Ministry of Higher and Secondary Education, and one out of four in the Ministry of Public Health and the State Statistics Committee.⁵

The cutbacks affected essentially all the administrative structures. For example, in 2005 the Foreign Economic Relations Agency was turned back once more into a ministry. At the same time, it is obvious that “cutback for the sake of cutback” does not promote really positive results and can only lead to the formation of a narrower bureaucratic structure, which will also want to protect its own corporate interests. So what is the point of administrative reforms in Uzbekistan if they are not taken as simply a reduction in the administrative machinery?

In our opinion, this process was engendered by the necessity to ensure decentralization and delimitation of state functions. World experience has shown that the successful development of society as a whole depends on the delimitation of powers between separate branches of power and on the nature of interrelations between the local bodies and the central administrative structure. Duplication of functions, lack of clear management organization, and insufficient public control will lead to a drop

² See: T. Zhukov: “Miagkoe kreslo ne tokarnyy stanok,” available at [www.zamoninfo.uz].

³ Ibidem.

⁴ See: *Decision of the Republic of Uzbekistan Cabinet of Ministers On Cutting Back the Administrative System* of 5 January, 2004, No. 1.

⁵ Ibidem.

in the efficiency of the activity of the state administrative bodies and serve as fertile ground for the bureaucracy to flourish.

This direction, that is, decentralization and delimitation of functions, is the main priority, since it permits the government to concentrate on strategic issues. This, in our opinion, will help to increase the efficiency of strategic management, create conditions for optimizing the number of central bodies, prevent interference in the economic activity of economic agents, raise the responsibility of the local state power bodies for providing services in such branches as health care and education, as well as raise the role of the local power bodies by endowing them with the authority to independently determine their own priorities and distribute resources keeping in mind the local conditions and requirements. This will also help to transfer many functions of the state bodies under public control in the form of local self-government bodies and nongovernmental and nonprofit organizations.⁶

The main principles of decentralization and delimitation of powers in Uzbekistan are:

1. Centralization of political and strategic powers that establish and regulate state functions in the republic-level state administrative bodies.
2. Transfer of the main bulk of state administrative activity to the territorial, regional, district, and city level.
3. Functioning of independent regional state administrative structures that are not subordinate to republic-level bodies in spheres not requiring the performance of political, strategic, and regulatory functions.
4. Functioning of regional links of direct or double subordination, which includes the performance of ongoing state functions. In so doing, it is necessary to ensure close interaction between the population and the economic agents.
5. Maximum rapprochement of the state services with the population or business entities, that is, with the consumers of these services.⁷

Delimitation and decentralization of administrative structures in Uzbekistan is being carried out in the following areas:

1. Horizontal decentralization with simultaneous changeover from sectoral to primarily functional administration. During the years of independence, the number of ministries and government departments (particularly sectoral) that carry out the function of direct state regulation has significantly decreased. More than 50 republic-level ministries have undergone reorganization. During the current administrative reform, in compliance with government decisions, more than 20 structures carrying out state administrative and economic management functions in different spheres are being eliminated or reformed. In compliance with the administrative reforms, only five of the remaining 13 ministries are sectoral (public health, higher and secondary special education, public education, culture and sport, and agriculture and water conservation), and three of the eleven state committees are sectoral (sport, geology and mineral resources, and architecture and construction). The sectoral ministries and committees mainly regulate the activity of sectors in which market mechanisms do not function efficiently.⁸

⁶ See: "Gosudarstvennoe upravlenie v usloviakh liberalizatsii ekonomiki: razgranichenie i detsentralizatsiia funktsiy," *Narodnoe slovo*, February 2004, available at [www.narodnoe slovo.uz].

⁷ Ibidem.

⁸ Ibidem.

2. Delimitation of functions of state administration and economic management. Beginning in 1997, state administrative reforms have been aimed at completing the delimitation of economic and state administrative functions.
3. Vertical-sectoral deconcentration. This is being carried out by transferring some of the functions of the republic-level bodies to lower-level structures, as well as to the private sector. The central government apparatus is overloaded with trying to find solutions to everyday problems in the industries and enterprises, which is not enhancing the qualitative development of strategic administrative decisions. During the decentralization of state administration, functions are being transferred to lower-level structures that involve the regulation and management of state property, surveillance, and the rendering of social services. For example, only some of the functions of the ministry of communal services eliminated at one time were transferred to the Uzkommunkhizmat Agency. Most of the functions of the eliminated government department were transferred to the local power bodies, and some of them to the private sector.
4. Elimination of the centralized distribution of resources presumes a decrease in the state's intervention in the activity of enterprises. In so doing, some distribution functions are still being retained in strategic areas.
5. Transfer of some administrative functions from republic-level state administration to the local level. At present, the regions are becoming more actively involved in the country's socio-economic and political life. Increasingly serious tasks, which used to be resolved only within the framework of the central bodies, are now being solved at the local level.

The activity of the state bodies in the provinces will increasingly concentrate on performing the following main functions:

1. Ensuring the practical implementation of social policy, including in education, public health, and social protection of the population.
2. Ensuring more reliable municipal housing conditions.
3. Creating a favorable atmosphere for developing private business.
4. Assisting the efficient functioning of self-government bodies and developing a civil society.
5. Transferring the functions of state administration to the makhallia self-government bodies, citizen gatherings, which have recently been acquiring greater significance in administering society.

III. The Problems and Prospects of Administrative Reform in Uzbekistan

Of course, the goals put forward by the country's government within the framework of the administrative reforms are positive with respect to the development and democratization of society. But, unfortunately, the practice of carrying out similar transformations in the CIS countries, of which we are the witnesses, is giving reason to talk more about the declarative nature of these reforms. In order to avoid this, we need to identify and resolve the problems preventing the formation of efficient state administration in Uzbekistan.

Corruption and clannishness are the most urgent problems in Uzbekistan's administrative structure. Corruption in the administrative system is promoting criminalization of political power, since the bureaucrat appointed to his post in a corrupted way will logically try to at least compensate for what he spent to gain his post. Clannishness and favoritism, in turn, are leading to an inefficient system for forming the managerial elite.

As we know, the main elements in creating an efficient state administration are transparency and counterbalances to the existing bureaucracy. Democratic institutions are the main elements for ensuring this. Unfortunately, it should be stated that conditions have still not been created in Uzbekistan for ensuring transparency and counterbalances. We think the following factors are at the bottom of this:

1. The lack of real opposition parties in parliament;
2. The lack of a civil society capable of articulating and aggregating its requirements;
3. The lack of a mechanism for ensuring a constructive dialog between the state and civil society.
4. The lack in the republic's mass media of independent information-analytical programs that raise the population's political culture. This is responsible for insufficient awareness of the population about the activity of the state structures. (In July of this year, we polled 50 people to find out whether they knew the names of the key ministers of Uzbekistan. Only 10 of those surveyed were able to name the minister of justice, minister of the interior, and minister of defense. It was also revealed that the country's population is more informed about the personalities and activity of the Russian Federation ministers.)

It is obvious that any reforms can only be efficiently carried out if they are correctly understood. Unfortunately, we have to say that the administrative reforms being carried out in Uzbekistan are not sufficiently understood either in the government or in society as a whole. In our opinion, this is manifested in the following aspects:

1. The administrative reforms are understood simply as a cutback in staff. The experience of foreign countries clearly shows that any activity based on the "cutback for the sake of cutback" principle does not lead to the formation of an efficient managerial structure.
2. The cutback in administrative staff is merely an effort to save money. Perhaps there are some specific positive aspects in saving funds, but today civil servants are one of the country's main sources of "capital." The more is invested in them, the more dividends can be received in the future. One of the serious problems in understanding the administrative reforms in Uzbekistan, in our opinion, is that the program for carrying them out does not contain a paragraph about the need to change the managers' mentality. For example, in Canada, the current administrative reforms are aimed 70% at changing the mentality of the managerial staff.⁹ We believe that shortcomings in understanding the administrative reforms in Uzbekistan are related to a certain extent to the lack of objective monitoring of them. This is primarily due to the fact that there are essentially no independent consulting companies and research centers in Uzbekistan capable of presenting an objective assessment of the reforms conducted.

Reform in the legislative sphere is the most important condition for the overall success of the reforms throughout the country. Unfortunately, it must be stated that to this day Uzbekistan

⁹ See: O.V. Ageev, S.V. Ustinkin, *Biurokratiia i politika*, Moscow, 2001.

does not have a law on civil servants. This is leading to unregulated relations among bureaucrats, as well as between the bureaucrat and his client. The republic's administrative system still has the dysfunctional elements inherited from Soviet times described by American sociologist Robert Merton. He regarded the bureaucratic system in the context of a substitution of goals. In his opinion, the bureaucrat primarily serves the interests of his organization and not the resolution of social problems.

A very important prerequisite for forming an efficient state administration system is professional staff. It must be stated that in Uzbekistan there is still not a sufficient number of specialists with diplomas in political science, sociology, and state administration.

Another problem that needs to be studied and a corresponding solution found is the unsatisfactory financial position of most civil servants. Although it has long been known that a "cheap administration" is the most expensive management in the world. At present, a middle-ranking official in Uzbekistan receives a salary of around 100 dollars, while a commercial employee earns two or three times more than this. This situation is naturally promoting corruption in the administrative structures.

IV. Conclusion

In our opinion, the administrative reforms in Uzbekistan could develop in keeping with four main scenarios:

1. Control by one person over the entire administrative system. Society's mental characteristics, expressed particularly in the inclination toward subordination to one "authority," are promoting this scenario.
2. "Bureaucratic centralism." As a result of the clan competition in Uzbekistan's administrative system, one or two clans could take the upper hand and monopolize the entire system of administration.
3. Confrontation between an individual (political authority) and the bureaucracy, in particular over distribution of the main financial and power resources.
4. Formation of an efficient administration system. This scenario can be realized only if the ruling elite begins to reform the sociopolitical system in favor of its real democratization, a contra elite appears that constructively criticizes the activity of the state bodies, the system of political institutions functions on the basis of checks and balances, and, finally, the population becomes used to democratic values.

It should be noted that the first three scenarios are the most capable of being implemented. The fourth should be regarded most likely in the longer term, whereby, naturally, it is the most acceptable for the sociopolitical development of the Republic of Uzbekistan.

TAJIKISTAN TODAY: ECONOMICS AND POLITICS AT HOME AND ABROAD

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Ten years ago, on 27 June, 1997, Emomali Rakhmon's government and the United Tajik Opposition (UTO) signed the General Agreement on Peace in Tajikistan in Moscow. S.A. Noori, the UTO head, died in the latter half of 2006; several months later President Rakhmon began another 7-year presidential term by forming a new Cabinet in which, for the first time since the Moscow Agreement, there were no members of the former opposition. The post-conflict period in Tajikistan had come to an end: in the summer of 2007 the U.N. Security Council closed the U.N. Tajikistan Office of Peacebuilding.

The decade that has passed since the end of the civil war was used to achieve relative social, economic, and political stability. Despite the fairly low GDP level (60 percent of Soviet times) and the poverty level, which remains the highest among the Soviet successor states, the nation is positive about the prospects. This is an important factor of political stability—probably even more important than the much-discussed fear of another bout of domestic unrest.

The shadow economy (migration of about a million Tajiks to Russia and the growing drug-created profits of certain groups engaged in drug trafficking from Afghanistan) plays an important role in the positive economic dynamics.

The official economy is also growing: the GDP is increasing by 6.7 to 10.6 percent every year. A successful macroeconomic policy and

balanced foreign policy allowed Dushanbe to attract investments in large-scale hydropower projects and the transportation infrastructure. There is another successful project—the Tajik Aluminum Plant (TadAP), the source of at least half of the republic's export earnings.

In November 2006, the presidential election completed the period of the final consolidation of the political system based on strong central power personified by President Rakhmon. A campaign to revise the post-1997 domestic political balance was launched by a constitutional referendum in 2003. The parliamentary and presidential elections in 2005 and 2006 squeezed the rivals and opponents of the incumbent president—former UTO members as well as those of the Kulob clan who brought Emomali Rakhmon to power—out of the country's political life.

Elbowed out of power, the Tajik opposition, which has lost its leader, is still the most effective in Central Asia. The Islamic Revival Party of Tajikistan—IRPT (which has preserved much of its former political resources) remains one of the key factors of domestic stability, not to be treated lightly by those at the helm.

In the last two years and in the changed Central Asian geopolitical context, Dushanbe has been demonstrating less dependence on the Kremlin (which did much to bring the ruling regime to power) in its foreign policy preferences: while the United States lost several points, Russia scored several points by establishing allied relations with

Uzbekistan. This cooled the relations between Dushanbe and Tashkent.

While moving closer to the West and China, as well as to Iran and to a certain extent India as the regional powers, the Tajik rulers never forget about Moscow as the guarantor of their position.

On the whole, the republic's dynamics can be described as positive even though the country remains burdened by a vast number of pending socioeconomic problems and certain negative political circumstances. This explains the cautious optimism displayed by most of the nation and all the foreign actors involved in the country.

The Socioeconomic Situation

The Republic of Tajikistan (RT) is the poorest country among the Soviet successor states with a very limited mineral resource base. It has not yet been restored after the economic collapse of the 1990s and the long civil war. The extremely negative starting conditions notwithstanding, Tajikistan's recent economic indices speak of considerable progress of the reforms. The country should obviously move in the same direction, while demonstrating balanced and well-substantiated approaches to rehabilitation.

Disintegration of the industrial and other physical infrastructure in the 1990s, the very narrow domestic market, inadequate industrial and technological base, undeveloped transport communications, and geographic isolation, which makes the country dependent on its neighbors (Uzbekistan in particular) for transit services, are all responsible for the republic's economic problems. During the years of independence, the republic lost huge numbers of specialists and skilled workers; today, it is being badly hit by the shortage of skilled workforce.

The per capita GDP (\$319) is the lowest among the CIS countries. Recent developments have not yet improved the situation: according to U.N. figures, at least 60 percent of the local population¹ is living below the poverty level, the highest share among the post-Soviet states.

The unemployment level is very high: according to government estimates, there are slightly more than 2 million jobs for the approximately 4-million-strong able-bodied population.² Government experts speak of nearly 1 million of the republic's citizens working abroad as seasonal workers.³ Nearly 1 million, or about one-fourth of the able-bodied population, can be described as jobless.

For four years running (after 2000), Tajikistan demonstrated one of the CIS's highest annual GDP growth rates (between 8.3 and 10.6 percent), but the figure remains slightly more than 60 percent of the 1990 level. Rehabilitation has not yet been completed. In the last two years, the growth rates slowed down: in 2005, the GDP increased by 6.7 percent; in 2006, by 7 percent,⁴ probably caused by the smaller volumes of cotton production and somewhat lower aluminum prices on the world market (both products are the main sources of the country's export income).

The high GDP growth rates are mainly explained by the very low starting level, but the state's recent competent macroeconomic policy and the general positive market developments in the CIS countries should not be forgotten.

¹ See: "Radostnye novosti: uroven bednosti v Tadjikistane snizilsia do 60 protsentov," *Ferghana.Ru*, 4 June, 2007, available at [www.Ferghana.ru].

² See: Z. Vazirov, "Trudovaia migratsia: etapy sotrudnichestva," *Asia Plus*, 17 November, 2006, available at [www.asiaplus.tj].

³ See: "Tadjikistan prosit Rossii puskat na tret bol'she trudovykh migrantov," *NewsRu.com* (Russia), 23 January, 2007, available at [www.newsru.com].

⁴ See: *International Monetary Fund. World Economic Outlook*, April 2007, p. 72.

The international financial institutions are very positive about the RT structural economic reforms; the Tajik leaders, however, should always bear in mind Kyrgyzstan's negative experience and take international recommendations with a pinch of salt.

According to EBRD experts, Tajikistan has successfully privatized small businesses⁵; however, the share of the private sector in the GDP remains low (less than 50 percent). The aluminum plant, communication, air transport, and railways are the state's main production assets.

While agreeing that the high GDP growth rates after 2001 can be explained by the initially low economic level, some Tajik analysts point to several other factors:

- the counterterrorist operation in Afghanistan and the West's presence there increased international aid to Dushanbe, a large part of its external debt was written off;
- when the Taliban was removed from power, drug production in Afghanistan increased together with drug trafficking through Tajikistan;
- Russia's economic growth created more jobs for Tajik migrants, who send the money earned in Russia home, thus strengthening the consumer paying capacity on the domestic market.

The high growth rates, however, sent up inflation: in 2006, the consumer price index was 10.1 percent, or one-and-a-half times higher than in 2005 and much higher than the planned 8 percent. Inflation is whipped up, among other things, by the labor migrants' money.

The Tajik Cabinet cut back the state's debt burden: late in 2005 the IMF confirmed its decision to write off part of state debt (about \$120 million) of Tajikistan and another 19 poorest countries of the world. Since 2000 the foreign debt/GDP ratio shrank three-fold—from 128 to 31 percent.⁶ By the beginning of 2007, the country owed about \$866 million.⁷

Payment for Uzbek gas and energy remains a problem; the local people are too poor to pay regularly, therefore communal services are sporadic.

Nearly half of the republic's industrial production and three quarters of its export are produced by the Tajik Aluminum Plant, recently renamed the State Unitary Enterprise Tajik Aluminum Company (TALCO), in the city of Tursunzade. The republic also owns several hydropower stations and small poly-metallic mining and processing integrated works, as well as more or less developed facilities producing cement, fertilizers, cotton fiber, and canned fruit. The production level today is a mere one third of the Soviet level.

Until 2007, TALCO remained state property despite the intention to privatize it. In the past few years, the volumes of produced aluminum and its profitability have noticeably increased: in 2006, the plant produced 416,000 tons of raw metal and nearly the same amount of primary aluminum, the larger part of which goes to the Netherlands and Turkey. According to its directors, the enterprise has nearly reached its projected capacity.⁸ The plant uses 32 percent of the total amount of locally produced electric energy and some energy bought in Uzbekistan.⁹

In 2004, in an effort to procure badly needed modernization money, the government revived the talks about transferring TALCO to Russia's Rusal concern. The potential investors announced that they were ready to spend considerable sums (more than \$2 billion) to modernize the plant and its re-

⁵ See: *Transition Report 2005*, EBRD, 2005.

⁶ See: *Republic of Tajikistan: Selected Issues and Statistical Appendix*, International Monetary Fund, Washington, April 2005, p. 53; F. Salimov, "Tadzhikistan v regional'noy politike," *Mezhdunarodnye protsessy* (Russia), Vo. 4, No. 2 (11), May-August 2006.

⁷ See: "Vneshniy dolg Tadzhikistana v 2006 godu sostavil 866 mln dollarov," *Regnum*, 25 January, 2007, available at [www.regnum.ru].

⁸ See: Z. Ergasheva, "TadAZ pereimenovan," *Asia Plus*, 6 April, 2007, available at [www.asiaplus.tj].

⁹ See: "TadAZ—eto 'tadzhikskiy Gazprom'?" *Asia Plus*, No. 28 (338), 13 July, 2006.

lated branches. The money was intended for new production capacities that could have brought the plant up to its full projected capacity and for another aluminum plant in the south of the country; it was also intended for completion of the Rogun Hydropower Station, which could have supplied the aluminum industry with an adequate amount of energy.¹⁰

It turned out, however, that the contradictions between the Tajik government and the investor over the cost of the Rogun Hydropower Station proved insurmountable. In May 2006, President Rakhmon announced that his country was “not yet ready” to privatize the strategic enterprise.¹¹ Early in June 2007 it became known that TALCO instituted court proceedings in Britain against Rusal for a sum of over \$500 million. The Russian side is accused of shady dealings in aluminum deliveries in 1996-2004.¹² This means that the Tajik leaders and Rusal parted ways: Rusal instituted a counter suit.

In 2004, it was announced that the Vakhsh cascade of hydropower stations would be completed with the help of RAO UES of Russia and the Iranian government. The projects created thousands of jobs; two new concrete-mixing plants were built to supply the energy projects with construction material.

Foreign investments in hydropower would have allowed the country to realize its export potential in this sector: Afghanistan, Iran, Pakistan, and India could have bought energy from Tajikistan. In 2005, it signed the first intergovernmental agreement on energy export to the north of Afghanistan.¹³

According to optimistic forecasts, the first of the hydropower stations under construction—Sangtuda-1—will be commissioned late in 2007. The completed Vakhsh cascade is expected to accelerate economic development and help the government put an end to the country’s economy dependence on single-profile enterprises. Increased aluminum and energy export will bring considerable income to be used to diversify the industrial base.

Agriculture is suffering from a shortage of planting acreage, a low mechanization level, and a narrow market. In recent years, the government has been exerting efforts to increase acreage under cotton (up to 40 percent of the irrigated land), but the yield has been steadily declining. In 2006, the republic reaped 438,000 tons of raw cotton, or 80.5 percent of the planned yield.¹⁴ Tajikistan processes only 12.4 percent of the locally produced cotton; the low level of fertilizer science leaves cotton and other fields unprotected against locusts and other pests.

Early in 2006 the government announced that the acreage under cotton would be reduced in order to increase the acreage under grain, which would make it easier to distribute the resources in the agrarian sector and import less wheat.¹⁵

The highly ineffective credit financing system is another headache: loans for peasants are accessed through futures companies rather than directly from banks. By early 2006, cotton-producing farmsteads owed \$292,000 million, or over 10 percent of the GDP. This is a serious fault that calls for remedying. The people on top and the banking sector should create a better cooperation model; those Kazakhstani banks that wish to join the Tajik market can also be involved.

¹⁰ See: “Interviu s direktorom predstavitel’sstva ‘Rusal’ v Tadjikistane K. Zagrebel’nym,” *Asia Plus*, 2 November, 2005, available at [www.asiaplus.tj].

¹¹ See: E. Batyrkhanov, “Rakhmonov otkazal Deripaske,” *Delovaia gazeta Vzgliad*, 5 May, 2005.

¹² See: Z. Ergasheva, “‘TALCO’ protiv ‘Rusala’,” *Asia Plus*, 4 June, 2007, available at [www.asiaplus.tj].

¹³ See: N. Edgori, “Minenergo: nikto ne v silakh nam pomeshat,” *Avesta*, 19 December, 2005, available at [www.avesta.tj].

¹⁴ See: M. Oripova, “Interviu s ministrom sel’skogo khoziastva i okhrany prirody Tadjikistana Abdurakhmonom Kadyrovym: ‘Reforma proshla s oshibkamai’,” *Asia Plus*, 25 January, 2007, available at [www.asiaplus.tj].

¹⁵ See: “V 2006 godu v Tadjikistane sokratiat posevnye ploshchadi pod khlopchatnik,” *Regnum*, 18 January, 2006, available at [www.regnum.ru].

A wide-scale program to reconstruct old and lay new roads (including two large tunnels) is underway. In the last three or four years, the country, aided by Iran and China, has been working hard to put an end to nearly complete isolation of the some of the country's regions.

The bridges across the Panj River, which separates Tajikistan and Afghanistan, built by the American military help to improve cross-border trade and seasonal communication with China. The Gorno-Badakhshan Autonomous Region (GBAR) of Tajikistan, which is isolated from the rest of the country, will gain better development opportunities.

The money which Tajik work migrants (mainly unskilled laborers) mail home from Russia helps most of the nation to survive. An unidentifiable number of Tajik citizens live on the proceedings from drug trafficking, which means that the republic largely remains dependent on the shadow economy for its economic progress.

Recently, the money sent by hundreds of thousands of labor migrants has become one of the main sources of the republic's receipts. According to the RT Ministry of Trade and Social Protection, in 2006 562,000 Tajik citizens left for Russia as labor migrants. The same source estimates the number of Tajik guest workers in Kazakhstan at 30,000.¹⁶

There is the opinion that legal labor-migration income comprises no less than 40 percent of the GDP. In 2005, guest workers sent home about \$800 million via banks¹⁷; more or less the same amount reaches the country through unregistered channels. This is a lot of money for Tajikistan and is very noticeable on the country's consumer market.

Some members of the expert community (Kh. Makhmadiev is one of them) believe that the recent economic revival was drug-induced. He is convinced that drug transit across Tajikistan supplies drug syndicates with between \$500 million and \$1 billion,¹⁸ or between 20 and 40 percent of the republic's GDP.

The republic's leaders admit that in terms of confiscated drugs their country is the first in the CIS and the fourth in the world. Over 60 percent of the drugs confiscated in the post-Soviet expanse is confiscated in Tajikistan by the Tajik law-enforcement structures.¹⁹ The future of the confiscated "product" is not always clear: it might be returned to the market and bring money to those involved. This is known to happen elsewhere.

Increased drug traffic adds clout to the clans dealing in drugs; corruption at the national and regional levels (among law enforcers in particular) is flourishing, while the general situation favors the semi-criminal nature of a large share of the republic's economy.

Domestic Policy

Tajikistan's political context is very important for Central Asian security: if destabilized it will bring numerous troubles and destroy the isolation regime in northern Afghanistan.²⁰

The November 2006 presidential election completed the three-year-long preparations for Emomali Rakhmon's long-term presidency (potentially for 14 years). The road was paved by the 2003 referen-

¹⁶ See: V. Vazirov, op. cit.

¹⁷ See: B. Abubakr, "Denezhnye perevody cherez 'Stranu-ekspress'," *Khovar* Information Agency, 16 May, 2006, available at [www.khovar.tj].

¹⁸ See: Kh. Makhmadiev, "Geroinovy VVP," *Asia Plus*, 15 September, 2005, available at [www.asiplus.tj].

¹⁹ See: P. Bruntal'skiy, "Zaslou u 'geroinovoy reki'. Tadjikskie udary po afganskim narkokordam," *Voenno-promyshlennyi kurier*, No. 3 (169), 24-30 January, 2007; A. Bogdanov, "Afgano-tadjikskaya pautina. Strany Tsentra Azii uzhe ne sposobny v odinokku protivostoiat narkoticheskomu valu," *Kabar*, 5 August, 2006, available at [www.kabar.kg].

²⁰ See: E. Tukumov, "Osnovnye etapy evoliutsii ekstremizma v Tadjikistane," *Analytic*, No. 5, 2004, p. 17.

dum on constitutional amendments, which allows the incumbent president to run for another seven-year stretch in 2013. The successful parliamentary elections in February 2005 and the presidential election in November 2006 left the regime in power for at least another 5 to 6 years.

The ruling regime capitalized on the widespread fear of another civil confrontation and tilled the soil for its continued power. In this way, it fortified its position on the domestic political field. This was accomplished at the expense of the legitimate religious and secular opposition and of the president's former allies who had probably abused their high posts and connections. Leader of the opposition Democratic Party M. Iskandarov, IRPT Deputy Chairman Sh. Shamsuddinov, former minister of the interior and head of the Customs Committee Ia. Salimov, and former commander of the presidential guard G. Mirzoev were sent to prison for long terms. Between 2003 and 2006, the ruling regime established control over the media and achieved acceptable election results, thus obviously tightening its grip on power.

It can be said that Tajikistan has moved from the postwar balance of different political interests to a rigidly centralized presidential system able to control the country's political elites. All other forces involved—the former opposition and the regional elites (including the Kulob clan)—were pushed to the margins of the state's political life.²¹

This means that at the end of the decade that has elapsed since the 1997 agreement President Rakhmon no longer believes himself to be restricted by the agreement with S.A. Noori: indeed, he easily won the November 2006 election to remain the president for seven more years.

It should be borne in mind that as the country's leaders will be more openly demonstrating the confrontational elements of their policies (this may happen toward the end of the present seven-year period), public opinion might turn away from them. While the sides involved have announced that peace and stability are their priorities, the conflict potential might gradually accumulate.

On the whole, however, the nation's majority is quite satisfied with the current situation and the country's leaders even though the production level and material well-being of Soviet times have not yet been restored. Unemployment is alleviated by labor migration to Russia and other CIS countries, while the money it produces keeps the national consumption at an acceptable level. The current situation on the world and regional markets as well as the relatively successful social and economic policies contribute to the positive trends. Today, satisfaction with the domestic situation has become much stronger than the fear of a repeated civil confrontation, which ended nearly ten years ago.

For geographic and historical reasons, Tajikistan, more than the other Central Asian countries, tends toward regional and clan division, which made it relatively easy to mobilize the clan-based opposition groups; the local opposition, in fact, grew out of the clan system. In the absence of a ramified road infrastructure in the mountainous regions, the regional political and economic elites based on clans remain isolated.

The Kulob clan that came to power is no longer a close-knit group. In an effort to preserve and extend his term in power for a long time to come, the president is pursuing his own policy, which might damage the interests of many of the prominent clan members. Dozens of top- and medium-level officials of the Kulob clan were replaced with loyal people from other regions, mainly from Khujand in the north.

The Karategin Region in the very heart of the country, the base of the Islamic opposition, is ruled directly from the Center, which means that the local elites cannot accumulate adequate economic and political resources; the region is too poor for this. The IRPT, which recently lost many of its former positions, remains the only vehicle of the Karategin elite's interests.

²¹ See: E. Tukumov, "Osnovnye etapy evoliutsii ekstremizma v Tadjikistane," *Analytic*, No. 5, 2004, p. 18.

The Gorno-Badakhshan Autonomous Region, another formerly opposition area, offered shelter to many of the former UTO warlords who refused to obey the new government. Today, much has been done and is being done to improve the Center's image among the local people: better transport communication with Dushanbe, the Xinjiang Autonomous Region of China, and Afghanistan alleviate the region's isolation. To gain a better control over the area, President Rakhmon deemed it necessary to replace Governor A. Niezmamadov, who filled this post for 12 years.

Judging by the media and the Internet, there are enough rich and influential people, some of whom hold important state posts, in Tajikistan who might be interested in domestic policy. In the absence of real guarantees of private property in Tajikistan, money is weaker than the administrative-political resource: the Tajik "oligarchs" are influential unless they remain loyal to power, their money cannot buy them political independence.

The party system is fairly developed, at least in the regional context. There is the ruling Popular-Democratic Party, as well as the Communist, Democratic, Socialist, and other parties in opposition, albeit to different degrees, to the regime. The ruling party, and other parties for that matter, have no stable party structure; they are not nation-wide parties. This can be said only of the IRPT, the most efficient opposition force.

The ruling party enjoys an absolute majority in the parliament (75 percent of the seats); the Communists and IRPT have 4 and 2 seats, respectively; 14 percent of the deputies are non-party people, but most of them are absolutely loyal to executive power.

On the eve of the 2005 parliamentary elections, the country's leaders tightened their grip on the media: some of the newspapers that gave space to the opposition were merely closed down.

Because of limited resources, the regime remains dependent, in part, on foreign aid, which means that it cannot follow in the footsteps of its neighbors which encroached on the activities of numerous NGOs, the country's second or third largest employers.²² They can still be described as a fairly efficient force that encourages grassroots initiative in the social sphere.

During the parliamentary and presidential election campaigns, the opposition parties of Tajikistan found themselves in a very difficult situation. Leader of the Democratic Party M. Iskandarov, one of the best-known politicians and a potential presidential candidate, was brought to court for the economic crimes he committed as the head of the republic's gas sector and sent to prison.

During the election campaign, the Democratic Party split (probably under outside pressure) into three groups, one of which (the minority faction headed by M. Sabirov) was registered by the RT Ministry of Justice. The Socialist Party, another secular opposition party, followed suit.

At present, the ruling regime has fortified its position to the extent that the provision of the 1997 Agreement on giving at least 30 percent of seats in the top echelons of power to the opposition was annulled. In fact most of its members have joined the ruling elite and filled lucrative posts absolutely devoid of political weight. The two ministers who filled the posts under the 1997 Agreement lost them in 2006 when the newly elected president formed a new cabinet.²³

Deprived of S.A. Noori, its leader for many years, the IRPT still remains the most efficient opposition party in the country and in the region. In fact, it is one of the stabilizing factors in the state's sociopolitical life. Despite the obvious infringement on its rights, the party has so far successfully avoided direct confrontation with power.

The pressure became too obvious on the eve of the parliamentary elections: the party lost several prominent members (deputy chairman and heads of regional structures) who were brought to court and sentenced to long terms in prison. Despite the fact that the IRPT chairman never intended to run

²² See: M. B. Olcott, *Central Asia's Second Chance*, Carnegie Endowment for International Peace, Washington, D.C., 2005.

²³ See: U. Babakhanov, "Vybor prezidenta," *Asia Plus*, 7 December, 2006, available at [www.asiaplus.tj].

for president, the heads of the Dushanbe water supply services threatened to bring him to court on accusations of calumny.

The death of S.A. Noori in August 2006 was a blow for the party, which lost the most influential post-Soviet politician. The party's future looks vague.

Mukhiddin Kabiri, the newly elected IRPT chairman, is well known as the leader of the party's modernist wing; at the same time, the party announced that it would refrain from running for presidency.

Mukhiddin Kabiri, a Moscow-educated Orientalist who speaks several foreign languages, is a relatively young and secular-minded man. He is generally considered to be acceptable to the powers-that-be: his criticism is not radical, while he, like his predecessor, prefers political compromises. He will obviously have less spiritual authority than S.A. Noori. It was expected that son of the late leader, Mukhammajon Noori, would head the Iran-oriented opposition to Kabiri.²⁴

Contrary to the pessimistic forecasts, the IRPT remained united and did not lose its more orthodox wing, however, after the death of its spiritual leader and the election of a young chairman who was not generally accepted, Tajikistan's most important opposition force has to look for new a place in the changed political context and work hard to regain its political weight in view of the 2010 parliamentary elections.

The IRPT is sticking to its policy of conflict avoidance, but the politically active believers are growing more and more dissatisfied with the government on many issues, while the trend toward Islam's stronger position is gaining momentum.

In an effort to undermine the opposition and its influence, the ruling regime is stepping up its struggle against religious fundamentalism. In 2005, control over observance of the ban on wearing hijabs in schools and for document photographs was tightened. According to government decisions, the number of mosques should not exceed the norm of one per 15,000 believers, a fairly small figure for the region's most religious nation.

The faithful are not pleased with the disappearance of unregistered prayer houses, but judging by the media reports, the government is treading cautiously (at least in the capital). Out of 70 unregistered prayer houses, 13 were closed, while the rest were either registered or given time to register.²⁵

In this way the Tajik government hopes to undermine extremism; in recent years several thousand suspected Hizb ut-Tahrir and IMU members were detained, mainly in the republic's north. Official sources describe them as citizens of Tajikistan who are ethnic Uzbeks.

The above shows that the extremist Islamist organizations are not very popular among the common people who remain loyal to IRPT and the 1997 Agreements. The IRPT leaders reject any possibility of cooperation with Hizb ut-Tahrir, which means that the radical Islamist threat in Tajikistan is much lower than in Uzbekistan.

Foreign Policy

Military-political cooperation with Russia remains the republic's foreign policy priority. It seems that the rapprochement with the United States and France that became obvious after 2001 and espe-

²⁴ See: V. Soloviev, "Tadzhikskaja oppozitsia poteriala lidera," *Kommersant*, 10 August, 2006; D. Glumskov, "Smert oppozitsii," *Ekspert*, 21 August, 2006, No. 30 (524).

²⁵ See: N. Pisaredjeva, "Bor'ba s neofitsial'nymi tadzhikskimi mechetiami: drugaia storona medalii," Institut po osveshcheniu voyny i mira, 17 April, 2007, available at [www.iwpr.net].

cially 2005 was nothing more than a diplomatic maneuver suggested by the situation in Afghanistan and other countries. Stronger economic ties with China, Iran, and Kazakhstan, on the other hand, are maintained in earnest.

The Russian 201st Motorized Infantry Division deployed in Tajikistan on a permanent basis makes the country Moscow's military and political foothold on the border with unstable Afghanistan, where NATO troops are stationed.

Some time ago the Russian border guards were replaced with Tajik forces, however, Russia's military advisors remained in Dushanbe to help build up the republic's proper border guard services. Russia owns Nurek, the opto-electronic space control center in the Pamirs; to retain it Russia wrote off \$250 million of Tajikistan's debt.

Tajikistan is the only CIS country that shares the institution of dual citizenship with Russia.²⁶ Russia is the main source of financial flows in the form of money guest workers send back home.

Despite the republic's stronger ties with China, Iran, and Kazakhstan, Russia will remain its main economic partner, at least in the near future. Russia-produced goods comprise 29 percent of the republic's import; with 7.2 percent, Russia is the third largest exporter of Tajik products, the two first places belonging to the Netherlands and Turkey,²⁷ which buy Tajik aluminum, the republic's export product that accounts for over 50 percent of the total export. Russia buys 40.4 percent of Tajik agricultural products and 39.4 percent of its cotton.

Russia's involvement in the Vakhsh project is a new factor in the two countries' bilateral relations. RAO UES has already invested the larger part of its planned investments in Sangtuda-1 Hydro-power Station; its first generating unit is expected to be commissioned in the latter half of 2007.²⁸ Rusal, another Russian investor, has big problems with the Rogun hydropower plant project because of the disagreements with the Tajik government over the dam's cost.

If the contract is annulled, other investors will be sought in Russia (probably RAO UES: under the 1993 agreement 50 percent of the plant's shares should belong to the Russian side).²⁹

In 2006, an agreement appeared under which Gazprom started prospecting for natural gas in Tajikistan.³⁰ The largest Russian companies (MTC, Vypelkom, and Megafon) are operating on the Tajik cellular communications market; other Russian companies are studying the prospects of the mining, metallurgical, and construction industries.

In the last two years, however, the relations between the two countries have been marred by disagreements. President Rakhmon repeatedly voiced his displeasure with Russia's drawing closer to President of Uzbekistan Karimov at the expense of its traditional and tested partner, by which he means himself and his country. Tajikistan is displaying more activity in meeting and talking to highly placed representatives of the United States, China, and Iran. The president abandoned the Russified in favor of the traditional version of his name, obviously to spite the Kremlin. Moscow responded by taking advantage of the fact that some of the members of the Tajik opposition whom the ruling regime of Tajikistan would like to isolate live in Russia.³¹

President Rakhmon's dissatisfaction with Rusal, the company the Kremlin supported as the investor for the TALCO and Rogun construction projects, was behind the cooling in their relations. There was another factor: Moscow's indifference to Tashkent's unfriendly treatment of its neighbors.

²⁶ See: S. Shokhzoda, "Tadzhikistan i Rossia nuzhdaiusia drug v druge," *Ferghana.Ru*, 6 April, 2007, available at [www.Ferghana.ru].

²⁷ See: "Vneshnetorgovy oborot Tadzhikistana vyros na 28.2 protsenta," *Ferghana.Ru*, 18 April, 2007, available at [www.Ferghana.ru].

²⁸ See: S. Shokhzoda, op. cit.

²⁹ See: A. Dubnov, "U Moskvvy poiavilis voprosy k Dushanbe," *Vremia novostey*, 28 June, 2006, No. 111.

³⁰ See: S. Shokhzoda, op. cit.

³¹ See: A. Dubnov, op. cit.

It seems, however, that the Tajik president is fully aware of the fact that the Kremlin's continued support of his government is the main stabilizing factor of his own position, therefore most of Dushanbe's foreign policy maneuvering in relation to the West, China, and Iran should be regarded as an attempt to invite Moscow to deal with the priority issues without involving Russia's rivals.

Prior to 2001 the West looked at Tajikistan as a sphere of exclusively Russian interests; the counterterrorist operation in Afghanistan added to the republic's geopolitical importance. There is a French airbase in Tajikistan used to support the peacekeepers stationed in Afghanistan; however, America's interest in Tajikistan is not as intense as it is in its neighbors (Uzbekistan and Kyrgyzstan).

The results of the July 2005 SCO summit in Astana, at which Tashkent and Bishkek announced that they would like to remove the American military bases from their territories, pushed Tajikistan to the forefront. The Manas airbase is still functioning, but Washington can no longer rely on the Kyrgyz leaders, while the U-turn in Uzbekistan's foreign policy added weight to Tajikistan, which is more inclined than its neighbors toward balanced policies.

In the last two years several top American and French officials visited the republic: U.S. State Secretary Condoleezza Rice and her deputy Richard Boucher responsible for Central Asian policy, who came several times, as well as Donald Rumsfeld and Michèle Alliot-Marie, the defense ministers of the United States and France, respectively. All of them, spurred on by the worsened military-strategic situation in Afghanistan, were obviously insisting on guaranteed functioning of the French military base and stronger cooperation with the United States and NATO.

Seen from the White House, Tajikistan looks like an important link in the Greater Central Asia project and the main channel (because of the bad relations between the U.S. and the Karimov regime) through which the Central Asian countries can be drawn into the post-war reconstruction of Afghanistan.

America is lobbying the idea of energy integration among Tajikistan, U.S. allies (Afghanistan and Pakistan), and India, the U.S. relations with which have become much closer. This is being accomplished within the Greater Central Asia project. Tajikistan is expected to export its energy to the south.

In October 2006, the Tajik government and the American AES Corporation held the Regional Energy Forum in Dushanbe, which Kazakhstan and Uzbekistan did not attend. It announced that all the sides were interested in energy export from Tajikistan and Kyrgyzstan to Afghanistan and Pakistan.

It should be said, however, that the Tajik representatives never fail to point out that the country's leaders invariably discuss their foreign policy moves with Russia and the CSTO structures.

The West might have been even more active in Tajikistan, had its companies felt the republic showed an economic interest in them. Today, Western involvement in the local economy is limited to the relatively small gold mining JV Zarafshan-Gold with the British and the AES projects, which so far do not own the republic's energy-producing capacities.

Recently Dushanbe-Beijing relations received a powerful jolt: the republic badly needs a lot of money from an investor with no political ambitions (such as China).

Several years ago Dushanbe completed its border negotiations with China; the border demarcation that started in June 2006 will go on until the end of 2008.³²

The normalized border regime made it possible to open the direct transportation corridor Tashkurgan-Khorog through the Kulma Pass (4,363 m), giving Tajikistan access to Xinjiang and Pakistan via the Karakorum highway and further on to the Indian Ocean. In 2006, the trade turnover through the

³² See: V. Dubovitskiy, "Tadzhikistan-Kitay: ot nastorozhennogo otnoshenia k strategicheskomu partnerstvu," *Ferghana.Ru*, 25 January, 2007, available at [www.Ferghana.ru].

Kulma customs post reached over \$4,250 million³³ and amounted to nearly 10,000 tons of goods. These are good figures in view of the fact that five years ago there was no trade at all through this customs post high in the mountains.³⁴

There is the opinion that stable transport communication with China will help develop the still neglected deposits of fluorite, tin, tungsten, boron, etc. as a raw-material base for the developing Xinjiang industries.³⁵

The Chinese soft loan of \$600 million the country received within the framework of the SCO is being used to build the South-North power transmission line-500 and transmission line-220 in the Hatlon Region, as well as the tunnel under the Shar-Shar pass on the road between Dushanbe and Kulob.³⁶ Chinese money is being used to modernize the Vakhsh nitrogenous fertilizer plant.³⁷ Beijing will undoubtedly be interested in the republic's electric energy export potential for the industrial development of southern Xinjiang.

Iran and a large part of Afghanistan with its Persian-speaking population provided President Rakhmon with the chance of demonstrating its independent foreign policy course by drawing closer to both countries. In January 2006, the Tajik president visited Tehran to meet his Iranian and Afghan colleagues; the mini summit failed because, under American pressure, President Karzai of Afghanistan preferred to ignore the event. The three leaders met later, in July 2006 in Dushanbe.³⁸ The summit did not produce any important documents, however, it greatly improved the republic's image as a state with balanced and multi-vector policies.

The Iranian leaders abandoned any attempts to interfere in the RT's domestic policy: they concentrated on cooperating with President Rakhmon's demonstratively secular government in the energy sphere (hydropower projects) and transportation infrastructure.

In February 2006, the Iranian-financed project (construction of the Sangtuda-2 Hydropower Station) was launched.³⁹ Tehran will invest about \$180 million; Dushanbe is responsible for \$40 million; the commissioning date is 2009, after which Iran will use the station for 10 years as a concession project.⁴⁰

An Iranian company acts as a contractor in building the Anzob and Shakhristan tunnels, which the country badly needs: it is expected that starting in 2007 they will ensure year-round transportation between Dushanbe and Northern Tajikistan.

During President Rakhmon's visit to Tehran early in May 2007, the sides agreed on concrete forms of cooperation in metallurgy. The Iranian partners will supply TALCO with aluminum in exchange for prebaked anodes. In the past, TALCO rarely used the Iranian ports (through which only up to 5 percent of its products and 1 percent of aluminum were moved), the closest outlet to the open seas. However, this is a shorter route: today most of products and raw material are transported across the Baltic and Black seas. TALCO is prepared to take out loans to invest in the reconstruction of the Iranian ports to adjust them to its own needs.⁴¹

³³ See: "Otkrylos dvizhenie po avtotrasse Murgab-Kulma-Karakorum," *Asia Plus*, 17 May, 2007, available at [www.asiaplus.tj].

³⁴ See: V. Dubovitskiy, op. cit.

³⁵ Ibidem.

³⁶ Ibidem.

³⁷ See: "Kliuchevye otrasli ekonomiki Respubliki Tadjikistan (obzor)," Internet Publication *Evrasijskiy dom*, 10 July, 2006, available at [www.eurasianhome.org].

³⁸ See: M. Pervushin, "Persoiazychny soiuz," Internet publication *Strana.Ru*, 26 July, 2006, available at [www.strana.ru].

³⁹ See: F. Salimov, "Tadjikistan v regional'noy politike," *Mezhdunarodnye protsessy*, Vol. 4, No. 2 (11), May-August 2006.

⁴⁰ See: "Mnogoobeshchaisushchee nachalo dlia iranskikh investitsii," *Institut po osveshcheniu voyny i mira*, 17 January, 2007, available at [www.iwpr.org].

⁴¹ See: A. Makhmudov, "TALCO stuchitsia v klub ser'eznykh aluminievnykh igrokov," *Avesta*, 16 May, 2007, available at [www.avesta.tj].

Relations with the Karzai government are friendly; the two countries are actively developing bilateral relations in transport communication and deliveries of Tajik energy to Afghanistan. Today Tajikistan is responsible for at least 10 million kWh supplied to Afghanistan.⁴² Energy transit to Iran, Pakistan, and India is actively discussed, but it cannot be realized earlier than 2008 and 2009 when the first of the stations of the Vakhsh cascade is completed. Relations with Uzbekistan remain fairly complicated: the neighbor is actively exploiting its geographical advantages and its relative economic might to keep Dushanbe dependent on its policies.

The information about an Indian military airbase being stationed at Aini airport looks dubious. Early in February 2007, the Defense Ministry of Tajikistan refuted the press reports about this; however, it cannot be excluded that in the future India will open its airbase on Tajik territory.

It looks as if New Delhi and Dushanbe are still discussing the issue, but so far the latter sees no political and economic advantages (except lease payments) in this cooperation. This can be described as President Rakhmon's attempt to use the "multi-vector" nature of its policy to gain Russia's stronger support.

Uzbekistan's EurAsEC and CSTO membership has done nothing to improve the relations between the two capitals in the last two years. In 2006, citizens of both countries were accused of spying in favor of the other country. The so-called independent ecological NGOs of Uzbekistan became even more critical about the plans to increase TALCO's productive capacities. According to the Tajik side, Uzbekistan cut short energy and gas supplies to the republic late in 2006 and early in 2007, which interfered with aluminum production at TALCO and disrupted the performance of other industries.⁴³ Tashkent refused to lower its gas prices (early in 2007, they were increased two-fold to \$100 per 1 thousand cu m) as Dushanbe asked it to do.

President Rakhmon reciprocated with increased criticism of the Uzbek leaders, who fail to live up to the EurAsEC obligations: it has not yet lowered the transit tariffs for the Tajik products carried across Uzbek territory and insists on the previous visa regime. So far nothing has been done to improve transport communication between the two countries and remove the landmines on certain stretches of their common border.

President Rakhmon has repeatedly objected to Uzbekistan's special regime in EurAsEC,⁴⁴ which will perpetrate the visa regime for Tajik and Kyrgyz citizens (in the latter case the regime is slightly milder).

The republic's relations with Kazakhstan, another regional neighbor, are much better: there are no political disagreements probably because the two countries have no common border. In fact, the Tajik-Uzbek contradictions make Astana's political and economic support even more desirable.

There is another important factor: the Tajik leaders are guided by the Kazakhstani model of state development, which proved to be the most effective in post-Soviet Central Asia. Dushanbe is very interested in the regional integration move that Kazakhstan is diligently promoting.

Trade and investment relations between the two countries are rapidly developing—the prospects are even brighter. Kazakhstan's share in Tajikistan's imports is 14.2 percent; this ensures Kazakhstan second place (after Russia). Uzbekistan, a transit country, comes third.

Two large mining projects with Kazakhstan's involvement are currently underway in Tajikistan: the Charyn Altyn JV and Kazinvestmineral Joint-Stock Company. The former mines silver in Gorny Badakhshan, the latter, which in the summer of 2006 acquired the Adrasman metal-dressing lead

⁴² See: F. Salimov, op. cit.

⁴³ See: S. Shokhzoda, op. cit.

⁴⁴ See: A. Asrorov, "Chem nedovolen Tadzhikistan?" *Kazakhstan Today*, 19 July, 2006, available at [<http://www.gazeta.kz/art.asp?aid=78077>].

combine in Northern Tajikistan, mines lead and processes it into lead-silver concentrate.⁴⁵ It is planned, under the Kazakhstani Investment Fund programs, to build a 500-kV power transmission line between Khujand and Shymkent to move cheap Tajik energy to energy-deficient Southern Kazakhstan and three small hydropower stations on the Zaravshan River.⁴⁶ Tajikistan's domestic market is growing. So far it is still relatively narrow and far from perfect, but it has good prospects for the Kazakhstani banks.

The ATF Bank of Kazakhstan is still in the process of buying the controlling interest in the Tajik Sokhibkorbank. Since 2005 the Turan Alem Bank and Kazkommertsbank have been present in Dushanbe mainly as observers.

Early in June 2007, the latter of the two announced that it planned to open a subsidiary branch in Tajikistan.⁴⁷ The National Bank of Tajikistan has already received an application, which will be reviewed within two months.⁴⁸

C o n c l u s i o n

An analysis of the current situation in the RT suggests fairly optimistic conclusions. The socio-economic dynamics, taking into account all the negative factors, can be described as positive. Labor migration alleviates unemployment and related tension and creates a fairly large money flow. Foreign investments into the Vakhsh cascade, the transportation infrastructure, and successfully functioning TALCO allow the country to use its industrial potential to a much fuller extent than is the case in Kyrgyzstan.

The country has acquired a stable centralized political system headed by Emomali Rakhmon; however, even the president cannot ignore the interests of the fairly active IRPT-supported Muslim community. To fortify its position, the government should take into account the fragile regional and elite balance on the domestic scene.

On the foreign policy stage, the regime is using all the tools of its multi-vector diplomacy to attract Russia's attention to Dushanbe as its key Central Asian ally. The Tajik leaders are pursuing purely pragmatic aims when inviting the geopolitical actors to the republic's domestic economic projects (mainly in the hydropower and transport infrastructure).

On the whole, Tajikistan today is a fairly interesting phenomenon, an example of a pragmatic domestic and balanced foreign policy course that should receive more attention.

⁴⁵ See: V. Dubovitskiy, "Kazakhstan v Tsentral'noy Azii: Priznanie regional'nogo liderstva," *Ferghana.Ru*, 10 April, 2007, available at [www.Ferghana.ru].

⁴⁶ See: "Investfond Kazakhstana nameren postroit LEP Khujand-Shimkent. Kazakhstanskije predprinimateli gotovy vlozhit sredstva v energetiku Tadjikistana," *Avesta*, 9 October, 2006, available at [www.avesta.tj].

⁴⁷ See: "Kazkommertsbank nameren sozdat 'dochku' v Tadjikistane," *Interfax-Kazakhstan*, 1 June, 2007, available at [www.interfax.kz].

⁴⁸ See: Z. Ergasheva, "Kazkommertsbank khochet sozdat v Tadjikistane svoju 'dochku'," *Asia Plus*, 4 June, 2007, available at [www.asiplus.tj].

ENERGY POLICY AND ENERGY PROJECTS IN CENTRAL EURASIA

ENERGY POLICY AND ENERGY PROJECTS IN CENTRAL EURASIA

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In Central Asia, energy policy and energy projects as part of the fuel and energy complex and regional economy as a whole are two sides of the same coin. In other words, the key energy projects that determine the development trends and major parameters of the republics' fuel and energy complexes for many years to come are, as a rule, closely connected with the main strategic foreign policy trends of those who rule Kazakhstan, Turkmenistan, and Uzbekistan. The main strategic actors (Russia, the United States, EU, and China) are exerting their influence on the local developments in the energy sphere. The second echelon (Iran,

Turkey, Azerbaijan, Georgia, Ukraine, and Poland) recently joined the struggle over influence in the energy sphere. The list of those involved is even longer: Japan, India, Malaysia, and South Korea are ready with their money to pursue their commercial and resource-related interests.

The long list of those wishing to have a finger in the Central Asian resource pie explains the local countries' multi-vector energy policy. While bringing certain short-term political and even economic dividends, this policy interferes with long-term strategic decisions and slows down progress in the region's fuel and energy complex.

Here are several recent examples: the already commissioned or planned pipelines depend for their continued functioning or even realization on Central Asian involvement. The Baku-Tbilisi-Ceyhan (BTC) pipeline will not reach its designated annual capacity of 50 million tons of oil without Kazakhstan's oil. The planned Trans-Caspian pipeline (along the seabed) will never be

realized if the Central Asian countries refuse to use it. This explains the heightened attention (bordering on pressure) to the leaders of Kazakhstan and Turkmenistan. The aim is obvious: the two countries should be removed from Russia's gas- and oil transport orbit to channel their fuel to Europe bypassing the Russian Federation and its pipeline system.

The Central Asian Fuel and Energy Complex Today

In 2006, the former Soviet republics produced 599.8 million tons of oil and gas condensate, or 15.3 percent of the world's production (3,914 million). With a consumption of 4.5 percent of the world's oil yield last year, the group supplied 14.2 percent of the world oil trade. In 2006, net export of oil and oil products constituted 274.6 million tons at a world market capacity of 1,933 million tons.¹

Within a year, the oil-producing CIS countries increased their total oil production by 3.9 percent (or 22.7 million tons). Russia, in which oil production is nearing the stagnation point, traditionally accounts for about half of the increase (10.5 million); Azerbaijan, which in 2006 increased its oil production by leaps and bounds (+ 44.9 percent), added 10 million; Kazakhstan demonstrated moderation in increasing its oil production (+ 5.6 percent), while in Turkmenistan and Uzbekistan the oil production level dropped (see Table 1).

Table 1

Oil Production
in the Soviet Successor-States

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	Increase in 2006
Russia	304.3	304.8	323.3	348.1	379.6	421.4	458.8	470.0	480.5	2.2%
Kazakhstan	25.9	30.1	35.3	40.1	48.2	52.4	60.6	62.6	66.1	5.6%
Azerbaijan	11.4	13.9	14.1	15.0	15.4	15.5	15.6	22.4	32.5	44.9%
Turkmenistan	6.4	7.1	7.2	8.0	9.0	10.0	9.6	9.5	8.1	-15.2%
Uzbekistan	8.2	8.1	7.5	7.2	7.2	7.1	6.6	5.4	5.4	-0.7%

Source: BP Statistical Review of World Energy, June 2007.

The Caspian region is the world's most important oil- and gas-rich area; about 4 percent of the world's hydrocarbon resources are found under its seabed. While the risks of geological prospecting

¹ See: BP Statistical Review of World Energy, June 2007.

are relatively small and the Caspian shelf looks very promising, the area is one of the risky investment objects. American experts have estimated recoverable oil reserves at 2.4-4.6 billion tons, while the potential resources are several times larger. The figures look plausible, if slightly overstated. Table 2 shows Western estimates of the oil and gas reserves of Kazakhstan, Azerbaijan, Turkmenistan, and Uzbekistan. The figures diverge widely, but experts agree that Kazakhstan is the oil-richest country, while Turkmenistan has the largest gas reserves. There is no agreement on the real Caspian oil and gas reserves, however, investors are surging ahead to put the already discovered oil fields into operation, which means that in the next decade Kazakhstan and Azerbaijan will join the group of the world's largest oil exporters.

Table 2

**Hydrocarbon Reserves in the Caspian Region
(end of 2006 assessment)**

Country	Oil (million tons)		Gas (billion cu m)	
	Proven reserves	Potential resources	Proven reserves	Potential resources
Kazakhstan	5,500	12,500	3,000	2,500-3,000
Azerbaijan (shelf)	1,000	4,500	1,350	2,000-2,500
Turkmenistan	100	4,000-12,000	2,860	4,000-4,400
Uzbekistan	100	3,500	1,870	3,000

Sources: BP Statistical Review of World Energy, June 2007 (proven reserves); Central Asia and the Caucasus, No. 4 (22), 2003, p. 72 (potential resources).

Judging by what the leaders of the Caspian states say, the plans for the oil and gas sphere are gigantic. Even though Kazakhstan might decrease the planned oil production by 2015, the figures remain fairly impressive. On 12 October, 2007, President Nazarbaev said: "By 2010 forecasted oil production in Kazakhstan will be over 80 million tons, by 2015 it will reach 130 million tons with domestic consumption of no more than 25 million tons." Earlier Astana operated with the figure of 150 million tons of oil a year in 2015 to join the top ten oil-producing countries.

Today, those involved in Kashagan, the largest oil project, are discussing the possibility of postponing its commissioning and cite 2010 as the date instead of the earlier planned 2008. The same can be said about the ambitious plan to join the ten largest oil producers. The Kazakh president remains optimistic: "By 2017 we shall become one of the ten largest hydrocarbon exporters."

By 2010 Azerbaijan will produce 48 million tons of oil and over 120 billion cu m of gas every year; the figures for 2020 are 100 million tons and 240 billion cu m, respectively. By 2030 Turkmenistan plans to produce 250 billion cu m of gas; in 2006, however, it produced only 65 billion cu m instead of the planned 80 billion. The figures show that gas production is rising slowly, which means that the real figures trail behind the planned. It should be said, however, that the galloping world hydrocarbon prices greatly affect the development processes in the Caspian states.

Advances in the fuel and energy complexes of the region's countries are responsible for their positive economic results. In mid-September 2007, in its *Asian Development Outlook 2007* (ADO

2007), the Asian Development Bank (ADB), for example, revised its own forecasts of GDP growth rates for six out of seven Central Asian countries (excluding Tajikistan): “The subregional forecasts will grow from 10.3 to 11 percent. In the first half of 2007, these Central Asian countries demonstrated inordinate economic activity.” (The Bank regards Azerbaijan and Armenia as Central Asian countries.)

The oil and gas complex accounts for over 40 percent of Azerbaijan’s economy; the high oil prices are spurring on its GDP, which accounts for the changed forecasts of the GDP growth in 2007 from 25 to 27 percent and from 17 to 20 percent for 2008. In the first five months of 2007, economic growth reached 36.2 percent of the annual basis, which is achieved because of net exports and increased oil production in the first six months by nearly 65 percent in annual terms.

In Kazakhstan, growing domestic consumption is sending up the GDP growth rates. In Turkmenistan, the increase is based on higher natural gas export prices: according to ADB, in the first half of 2007 export prices increased by 9.7 percent; the planned annual increase is forecasted at the 8 percent level.

Uzbekistan is improving its economic indices thanks to investment inflow and exports growing in the favorable foreign economic context.

The economic development strategies of Russia, Kazakhstan, Azerbaijan, and Turkmenistan (the countries oriented toward raw material export) for the coming decade regard the fuel and energy complex as the main driving force of the structural changes in their economies. Similar strategic landmarks have made these countries rivals on the world oil and gas market.

This means that the forecasts of the total volumes of crude oil exports from Azerbaijan and Kazakhstan of 150-180 million tons a year by 2010-2015 (several times higher than the present figures) are justified by the most plausible assessments of increased oil production in the region and the present and forecasted dynamics of domestic oil consumption. Most of the produced oil and gas will probably reach the European market, which means that the oil suppliers will have to compete for one, essentially, cartel buyer—the EU members. The future of Russia and the Caspian countries is bleak; in order to create conditions for coordinated hydrocarbon exports to the main markets, Russia must increase its investment and production potential in the region.

The Russian Federation cannot merely increase the production of oil and gas on its territory, since this will send the oil prices down; the Russian companies might be elbowed out of the market because of the high production costs. To preserve its position on the European market, Russia will have to extend its presence in oil and gas production in Kazakhstan, Turkmenistan, and Uzbekistan, as well as in the Russian sector of the Caspian shelf.

In recent years Russian business has increased its presence in the industry: two Russian giants (Gazprom and LUKoil) plan to invest several billion dollars in the prospecting, development, and production of natural gas. Uzbekneftegaz and LUKoil are working together in the very heart of Kyzylkum on the Kandym-Khauzak-Shady mega-project totaling approximately \$2 billion. They are moving toward commercial gas production at the CIS largest gas field. Specialists compare it with Karachaganak, Kazakhstan’s richest gas field. Uzbekistan and Gazprom of Russia are steadily building up gas exports: in 2006, the main Central Asia-Center pipeline received 9 billion cu m of Uzbek gas, while the planned figure for 2007 is 13 billion.

Experts are optimistic about supplies of Uzbek gas to the foreign market; the newly developed gas fields on the Ustiurt Plateau will increase gas exports to 17-18 billion cu m a year; Gazprom is prepared to invest \$100 million in the project, while the total volume of investments of the Russian gas monopolist amounts to \$1.2 billion.

LUKoil is likewise prepared to launch commercial production at its Uzbek facilities late in 2007, whereby the maximum production level within these project might reach 10 billion cu m of gas a year. There are plans to reach a production level of 3 billion cu m by 2008. The company’s capital costs on

the Kandym-Khauzak-Shady field with proved geological gas reserves of 283 billion cu m are estimated at \$1 billion. Russian investments may help Uzbekistan to become a prominent gas player.

The new Turkmenistan leaders allowed LUKoil to develop three promising oil-bearing blocs in the Turkmenian sector of the Caspian under the agreement signed on 12 June, 2007 in Ashghabad by Turkmenistan President G. Berdymukhammedov and LUKoil President V. Alekperov. In the next five years the Russian company might invest \$1.5-2 billion in the project.

It seems that LUKoil is not the only Russian company that may move to Turkmenistan. President Berdymukhammedov has already invited Sistema Company to join others in developing the Caspian hydrocarbon resources. After the meeting between the presidents of Russia and Turkmenistan in May 2007, we all learned that Zarubezhneft, Itera, Stroytransgaz, Soiuzneftegaz, and Rusal had already been planning their involvement in Turkmenistan.

Oil Transportation

More active involvement of the oil companies working on Russian money will spur on oil production and will add urgency to the issue of oil and gas deliveries to the main customers, the European countries.

The Caspian region has sufficient oil pipeline capacities. So far the amount of locally produced oil is much lower than the total network capacity, which makes the rivalry for oil even fiercer.



The United States and the EU deemed it necessary to complete the fairly ramified pipeline network with *Baku-Tbilisi-Ceyhan*, another oil pipeline, without guaranteed loading and profitability.

Today it is one of several main pipelines that move Caspian oil to Europe: the *Baku-Novorossiisk* (the concessionaires are Transneft of Russia and AIOC of Azerbaijan) and *Baku-Supsa* (AIOC and Georgia) pipelines, which move Azeri oil (each with a capacity of 0.1 million barrels a day). There is also the *Atyrau-Samara* pipeline (Kazakhoil of Kazakhstan and Oreloil of Russia), which moves Kazakh oil, with a capacity of 0.2 million barrels a day. Since 1995, *TRACECA* (the railway corridor

between Azerbaijan and Georgia) has been serving another oil route. Oil from Kazakhstan reaches the port of Aktau through a pipeline, where it is loaded onto Azeri tankers (carrying from 5 to 10 thousand tons of oil each) and sent to Baku across the Caspian. From the Azeri capital it reaches the railway stations of Dubendi and Ali-Bayramli by pipelines, where it is loaded into oil tank wagons to be brought to Batumi on the Black Sea coast, where it is loaded onto tankers to be delivered to Europe.

The route that brings oil across the Caspian to Makhachkala and Novorossiisk is a relatively new one. Many of the exporters find it fairly attractive: the pipeline bypasses Chechnia and, built for Azeri oil, of which there is currently not enough to load it, remains practically idle.

The *Caspian Pipeline Consortium* (Tengiz-Novorossiisk) was commissioned in March 2001. It involved several oil giants—Mobil and Chevron of the U.S., British Gas of the U.K., JV LUKArco (Russia-U.S.), Kazakhoil of Kazakhstan, JV Rosneft-Shell (Russia-U.K.), and Agip of Italy. Its total length is 1,500 km, the annual planned capacity is 67 million tons; however, the Russian side refuses to extend the pipeline capacity to reach the planned amount. Serious disagreements undermined the project: its total debt to the shareholders amounts to approximately \$5 billion. Before 2006 the pipeline was losing money; in 2006, however, when 31 million tons of oil were pumped through the pipeline, the consortium started earning money, but the exact size of the 2006 profit remained undisclosed.

On 18-19 September, 2007, the CTC shareholders met in Almaty to support Transneft, which suggested that the interest on loans to the consortium should be lowered from 12.66 to 6 percent, while the tariffs should be increased from \$30.2 to \$38 per ton to allow the unprofitable enterprise burdened with debts to avoid bankruptcy.

Moscow is not merely interested in earning money on moving Kazakh oil across Russia: it also seeks control over a share of Kazakhstan's oil exports. Today, it controls 42 million tons (87 percent) of the Kazakh oil exports through the CTC and Atyrau-Samara pipeline. This explains why Transneft, after gaining control over Russian shares in the CTC, pushed the measures designed to save the CTC from bankruptcy through a shareholders' meeting.

With the CTC out of the picture, the situation with Kazakhstan's oil exports will change dramatically: first, part of the oil will be sent via the Baku-Tbilisi-Ceyhan and/or Chinese pipeline. In this case, Kazakhstan might start moving its oil across China to Chinese ports. Second, the pipeline might fall into the wrong hands, so Transneft prefers to stick to the pipeline no matter what.

In fact, money is not the aim of continued control over Kazakhstan's oil exports. It is much more important to keep Kazakhstan at Russia's side. With the CTC out of the game and in the presence of the BTC (ready to receive 25 million tons) and Chinese pipeline, Russia will lose its grip on Kazakhstan's oil exports. This means that Transneft will spare no efforts to keep the CTC afloat.

It looks as if the Russian company does not want to extend the pipeline's capacity: potentially it can move from 5 to 7 million tons of oil (the possibility was discussed in 2002), but it refuses to build the 50-kilometer long pipeline between the towns of Tikhoretsk and Kropotkin.

Russia, however, is ready to exchange permission for the 50-km-long stretch for guaranteed involvement of one of its main shareholders in using the Burgas-Alexandroupolis pipeline. Today, the Kazakh oil exporters are trying to avoid Russia because it looks at oil transit and export as a geopolitical issue rather than as business. At the same time, the efforts to bypass Russia and the need to load the Burgas-Alexandroupolis pipeline have made tariff compromises inadequate: Moscow will have to work on export priorities and strategies that will match the growth of oil production in the Caspian region and the appearance of new export routes.

Even though there are more than enough oil pipelines leading to Europe, new pipelines are being planned. Recently the United States and Poland joined forces to revive the idea of completing the *Odessa-Brody-Gdansk* pipeline and to find oil to load it. The reversed Odessa-Brody pipeline, which connects the terminal on the Black Sea coast with the Druzhba mainline, was completed in 2001; since 2004 it has been moving Russian oil to Odessa.

When the pipeline reaches Plock in Poland, connected by a pipeline to Gdansk on the Baltic coast, oil will be moved further on to Central and Western Europe. It is expected that Caspian oil will reach Odessa in tankers.

So far the plans are being implemented as political statements; the idea was further developed on 10-11 October, 2007 at the Vilnius Energy Security Conference 2007: Responsible Energy for Responsible Partners. The state oil companies of Azerbaijan, Lithuania, Georgia, Poland, and Ukraine joined the Sarmatia consortium set up to extend the Odessa-Brody oil pipeline to Plock. The members pin their hopes on Azerbaijan as the potential oil supplier; we all know, however, that this country sends the bulk of its oil via the BTC, which remains underloaded. It is planned, however, to enlarge the BTC's annual capacity to 60 million tons of oil, which means that Azeri oil will not reach Gdansk, even in the distant future. Frankly speaking, there is not enough oil to load the Odessa-Brody-Plock-Gdansk pipeline.

Early in April 2007 Rumania, Serbia, Croatia, Slovenia, and Italy signed an agreement on building the *Constanța-Trieste* oil pipeline to connect the Black and Adriatic seas to move Caspian oil to Europe bypassing both Russia and Turkey.



The 1,300-km-long oil pipeline with the annual planned capacity of up to 100 million tons of oil will be completed by 2012; the oil refineries of Italy and Central Europe will receive Kazakh and Azeri oil.

The European Union stood firmly behind the project. According to EU Energy Commissioner Andris Piebalgs, the project is part of the EU strategy designed to reduce its energy dependence on Russia. He said that oil would reach Constanța mainly in tankers from Ceyhan where it arrives by means of the BTC. This is an expensive and, therefore, practically unrealizable alternative. There is another option: oil can be moved from the Georgian port of Supsa to Constanța across the Black Sea, thus avoiding not only Russia, but also Turkey. However, there is still the problem of the Bosphorus.

According to preliminary estimates the Constanța-Trieste pipeline will cost \$2-3.5 billion; the money will come from the coffers of the states involved, the European Investment Bank, and private sources. The line will compete with the Burgas-Alexandroupolis pipeline now under construction with Russia's support.

On 24 April, 2007, construction of another oil pipeline began in Ceyhan that will connect it with the Black Sea port of Samsun. The project, which costs \$1.5 billion, is being implemented jointly by

Turkey's Çalık Enerji Sanayi and Italy's ENI. The 550-km-long pipeline will be completed in two years; initially it will move about 1 million barrels a day; it is planned, however, to bring the amount of oil that reaches Ceyhan to 1.5 million barrels a day. The *Samsun-Ceyhan* pipeline will offer new opportunities for Central Asian and Russian trade on the world markets.

Gas Transportation

Whether Russia's CIS neighbors will side with the West, wishing to leave Russia out of the gas transportation projects, depends on the world political and energy situation. What happened to the *Baku-Supsa* pipeline confirms that they are guided by their national interests: the first of the export oil pipelines built to bypass Russia was put out of commission in April 2007: its political usefulness and technical life had come to an end. To be revived, it will have to be renovated; moreover, Azerbaijan is insisting on a revised agreement with the investors.

This brings to mind Russia's conflict with the Western CTC shareholders. Moscow also wants to make the project more profitable. In the Baku-Supsa pipeline case, too, haggling over the financial conditions narrows down the pipeline's potential.

This means that various projects and countries are demonstrating the same mounting desire to revise the oil transportation projects of the 1990s. Today, when the oil prices have reached their maximum and the governments of the former Soviet republics have gained much more confidence, the oil industry has reached a period of political volatility. This may prove to be bad news for the Western strategists who, in the final analysis, have the interests of their own countries and companies close at heart.

The rivalry, which I spoke of above, between Russia and Central Asian countries (Kazakhstan, Uzbekistan, and Turkmenistan) over hydrocarbon supplies to the European market may become a reality, if the countries involved do not harmonize their export policies. The U.S. and EU are actively pushing the Central Asian exporters toward continued disagreements (especially on the gas market). Today, the price and resource strategy in relation to Europe is based on Gazprom's de facto monopoly on the gas delivery market. This means that new gas pipelines bypassing Russia may create competition among the suppliers, which will push the prices down—something that the gas users naturally want to achieve. The Central Asian countries, not quite delighted with Russia's monopoly, have to bear this prospect in mind.

So far Russia's Caspian partners remain "locked" on their gas fields: Gazprom's main lines are not entirely adequate to their needs. To compensate for the very low gas prices at home, the Russian pipeline monopolist tends to lower the procurement prices, which cannot but irritate the Central Asian partners. They rightly believe that they have to pay for Gazprom's ineffective financial and economic activities.

The Soviet gas transportation infrastructure was geared toward supplying Europe, which made transit across Russia the only route open to the gas-producing countries. This means that for the time being Russia remains in control of Central Asian and Trans-Caucasian oil and gas exports. About 70 percent of oil sold by Kazakhstan, Azerbaijan, and Turkmenistan to the far abroad and 100 percent of Turkmenian gas exports are moved across Russian territory, which neither foreign investors nor foreign political leaders like.

Today, Russia's fairly weak transportation infrastructure lacks adequate capacities and has deteriorated to the extent that it no longer corresponds to the growing pressure of Central Asia oil and gas exports. Russia's inadequate policy in Central Asia and its relations with the raw material exporters, which want stability more than anything else, have forced them to look elsewhere: there are sev-

eral planned and implemented alternative oil and gas transportation projects that exclude Russia's territory. The leaders of the newly independent states regard the alternative oil and gas export routes as an element of their countries' real sovereignty. Hence the strong political support of the new pipeline projects, which so far look fairly exotic.

The *Turkmenistan-Afghanistan-Pakistan* (TAP) gas pipeline to the south is one of the most pertinent examples. As the Central Asian Gas Pipeline, or CentGaz for short, it has been discussed, buried, and revived for nearly a decade. As soon as the Taliban regime in Afghanistan was overthrown, President Niyazov tried to revive the project first suggested by Bidas of Argentina in 1993 and later, until 1998 (when the Taliban openly clashed with the rest of the world), developed by the tandem of Unocal of the United States and Delta Oil of Saudi Arabia.

The ADB, in turn, which paid for the feasibility studies, hoped that by the end of the same year the structure of capital stock would be formed together with the funding mechanisms. At the early stages, however, the risks involved and the market, which could not consume between 20 and 30 billion cu m of gas (the amount that would have made the project profitable), made the project's future vague. Early in October 2007, the prospects brightened.

The Indian government decided to join the TAP, which might become the *Turkmenistan-Afghanistan-Pakistan-India* (TAPI) project.

India consumes about 140 million cu m of gas every day, which removes the market issue from the agenda. All the other doubts remain, which allows the experts to describe the project as geopolitically dubious. So far, no one knows exactly how much gas Turkmenistan has; the situation in Afghanistan, one of the possible transit countries, remains unstable. There is a rivaling project across Iran, Pakistan, and India, which Gazprom is actively lobbying, etc.

The specifics of the gas transportation methods and Europe's dependence on Gazprom's pipelines makes Russia's impact on the gas market much more pronounced than on the oil market. So far, diversification of gas supplies, Brussels' heartfelt desire, is going on slowly, hence the increasingly active efforts to devise and realize alternative routes for the Caspian and Central Asian gas.

The West, in an effort to weaken Moscow's control over the Caspian and Central Asian gas resources, is exploiting the disagreements among the partners to promote alternative routes bypassing Russia. Their prospects look dim: there are numerous political, geographic, technological, financial, and resource limitations.

Today Washington and Brussels joined forces to realize the idea of the *Trans-Caspian gas pipeline* (TCGP). laid along the Caspian seabed. America's geopolitical ideas about Central Asia serve the cornerstone of the thesis that oil and gas exports from the region, which will exclude Russia and Iran, is the U.S.'s "strategic priority." Any of the American emissaries visiting the Central Asian countries talk about the Trans-Caspian gas pipeline. The project, however, remains a doubtful enterprise: it is still unclear whether it will receive enough gas to justify construction; the technical side of the pipeline laid in a seismically hazardous zone across the territories of several countries likewise invites numerous questions, including the risks of terrorism, project appreciation, etc.

The project was launched in 1996 on the initiative of the United States, which declared the Black Sea-Caspian region to be a zone of its strategic interests. At that time, the Americans sat down to create a new pipeline architecture from which Russia and Iran were to be excluded. America went as far as setting up the PSG consortium, consisting of General Electric, Bechtel National, and Shell. In 2002 Turkey and the European markets should have received 16 billion cu m and 14 billion cu m of gas, respectively. In 2000 numerous disagreements over conditions cut short the progress.

Recently, the EU and the GUAM countries pooled their efforts to lobby the project as a logical extension to Nabucco, the gas pipeline initiated in 2002 by gas companies of Austria, Hungary, Rumania, Bulgaria, and Turkey.

Early in 2006 Turkey and Turkmenistan revived the TCGP idea; later Azerbaijan and Kazakhstan displayed their interest. Early in 2007 Baku, Astana, and Ashgabad discussed the possibility of moving their gas across Azerbaijan, Georgia, and Turkey. Their interest is easily explained: it is expected that the EU will receive natural Central Asian gas through Nabucco, a TCGP modification. Its western part will cross Georgia, Turkey, Bulgaria, Rumania, and Hungary to reach Austria.

The idea looks realizable if the Aktau-Baku stretch is laid along the sea bottom; the southern stretch, from Iran and the Gulf countries, may be linked to the main pipeline. Its planned annual capacity is \$26-32 billion cu m; the initial cost of about \$6 billion may be increased by 40 to 60 percent. The planned deadline is 2012.

Resources are the project's weakest point: even 8 to 10 years later Azerbaijan, one of the most active supporters, will be able to come up with only half of the planned load; in fact the republic is no gas supplier: it consumes about 12-14 billion cu m of gas every year. By 2006 it produced less than 6 billion cu m and bought the rest from Russia and Iran. According to optimistic assessments, starting in 2007-2008, Azerbaijan will no longer need Russian gas: it will cover the present gap with Shah Deniz gas. V. Aliev, who heads the Foreign Investments Department of the State Oil Company of Azerbaijan Republic, believes that in 2007 his country will be able to supply over 4 billion cu m to Turkey; the figure for 2008 is 6.3 billion (which looks doubtful, to say the least). According to Minister of Industry and Energy of Azerbaijan Natic Aliev, by 2015 the country may count on 15-16 billion, 20 billion cu m of gas at best, from Shah Deniz. This makes Kazakhstan and Turkmenistan the central figures without which the project has no chance.

Kazakhstan is demonstrating restraint. The country's leaders and heads of the fuel and energy complex agree that so far the TCGP does not look promising. On 11 October, 2007, when speaking at the Vilnius Energy Security Conference 2007, Minister of Energy and Mineral Resources of Kazakhstan Savat Mynbaev said that his country was prepared to join only economically justified projects, which means, added the minister, that any diversification project would be scrutinized.

Even though Kazakhstan's government is actively discussing the project within the republic's multi-vector policy, only Turkmenistan has enough gas to make the project economically attractive.

Late president of Turkmenistan Niyazov rejected the seabed project when Gazprom agreed to pay \$100 per 1,000 cu m of Turkmenian gas in 2007-2009. Under the agreement signed on 5 August, 2006, Gazprom pledged to buy 12 billion cu m of gas in 2006 and 50 billion every year between 2007 and 2009. This will cost the Russian company \$6 billion more than expected; this is the price for its total control over Central Asian gas exports to Europe until 2010. Gazprom will obviously have to pay to "freeze" the TCGP. President Niyazov hastened to say: "We shall sell our gas primarily to Russia. You should not imagine that Turkmenistan wants to move aside with its gas; we are not ready to discuss the Trans-Caspian Gas Pipeline yet."

The situation around the TCGP shed light on the different positions of the energy producers (Russia) and energy users. Costly, but effective, measures allowed Russia to preserve its control over gas exports to Europe. Russia's willingness to pay more for Turkmenian gas was not wholly political. It made gas trade fairer; together with Kazakhstan and Turkmenistan, Russia should ensure steady gas supplies to Europe for fairer prices than before. The common interests of the gas producers suggest that they should cooperate both in gas production and gas trade. In other words, they should coordinate their pricing policies, which means that a gas OPEC in one form or another is around the corner.

For political reasons, the TCGP project is impossible without Russia's and Iran's consent, because under the 1996 American project the eastern and western Caspian coasts should be connected by a pipeline laid along the seabed. The post-Soviet status of the Caspian Sea, however, has not yet been established and the national sectors have not yet been identified. This means that any of the five coastal states can object to the project.

Iran objects for ecological reasons and because of the Caspian's still indefinite status; Moscow supports Tehran, which means a consensus will not be reached in a hurry.

The size of Turkmenistan's gas reserves remains undetermined: there is the firm conviction inside the country (much doubted outside it) that the reserves are enormous.

The situation with Dauletabad, the country's largest gas field, described as the resource basis for gas supplies to the Soviet successor states and for the "paper gas pipeline" across Afghanistan to Pakistan, remains vague. In November 2006, President Niyazov announced that the reserves explored by Turkmen geologists at the Iuzhny Iolotan field amounted to 7 trillion cu m, much more than the Russian Stockman field could yield. Later, the new president of Turkmenistan announced that Osman, another rich gas field, had been discovered in the southeast of Iolotan.

The Western media that maintain contacts with the Turkmenian opposition in exile write that the statements about the recent discoveries are nothing more than a PR campaign launched by President Niyazov together with some Turkish firms with licenses from well-known Western companies on auditing gas fields. The project presupposed that Turkmenistan would announce that rich gas reserves had been discovered, while the Turks, acting in the name of well-known companies, would confirm this in exchange for preferences at tenders for all sorts of projects and other benefits.

It is a commonly known fact that early in the 1970s highly skilled experts of the U.S.S.R. Ministry of Geology who worked in the southeastern corner of Iolotan along the Afghan border did not find anything like rich gas reserves. In any case, the Russian experts are very pessimistic in this respect, which explains why the Russian, and Western major companies for that matter, prefer to keep away from Ashghabad's grandiose projects. Only the Chinese risked joining the development on the left bank of the Amu Darya.

The size of Turkmenistan's reserves is the most zealously guarded state secret. Ashghabad quotes the figure of 28.6 trillion cu m of proven reserves, but will not permit foreign experts wishing to check this information to enter the country. The Russian and Western assessments say that the total potential does not exceed 15.5 trillion cu m. Ashghabad, however, offers higher figures: it has already moved from the earlier figure of 23 trillion to 42-44 trillion cu m of gas.

The Turkmenian president speaks loudly of his policy of "multi-option export routes," promises gas left and right, and warns that his country is ready to move its gas in any direction to its own border. Ashghabad has already promised its gas to China, Russia, the United States, and Europe; taking into account its previous obligations, there is doubt that it can cope with the 30 billion cu m of gas it promised to China. The country is obviously unable to produce enough gas to live up to its export obligations to Russia, Iran, and China and to send enough gas to its domestic market. According to BP, in 2006, the country produced 62 billion cu m of gas; in 2007-2008, it promised to supply Russia with 50 billion cu m, send 7 billion to Iran, and consume 17.4 billion cu m a year at home.

This is very typical of the region as a whole: the Russian expert community, and even official circles, are quite open about their doubts: the plans to double gas production by 2020 and the figures quoted by Turkmenistan, Kazakhstan, and Uzbekistan (230 billion, 70 billion, and 75 billion cu m, respectively) look overstated.

Gas pipeline projects are mushrooming despite the obvious fact that alternative gas pipelines (which exclude Russia's involvement) are absolutely unrealizable without Central Asian gas.

Washington plans to work together with Baku on building the *Turkey-Greece-Italy* gas pipeline to fill the Nabucco project. The United States intends to develop other projects together with Azerbaijan to ensure Europe's energy security by diversifying natural gas supplies.

Nabucco was devised to exclude Russia from gas transportation to Europe. At the early stage it will move Azeri and Middle Eastern gas to the heart of the European Union across Turkey. The Cen-

tral Asian suppliers are expected to join later. Austria's OMV oil company put on the table the idea of a gas pipeline from the Caspian to Europe (bypassing Russia). It will be about 3,300-km-long and will cost about \$6 billion with a capacity of 25-30 billion cu m. Construction will start in 2008 and be completed in 2012; its western part will cross Turkey, Bulgaria, Rumania, Hungary, and Austria. The pipeline will collect gas from Turkmenistan, Kazakhstan, and Azerbaijan.

The future of the project depends not so much on Azerbaijan (by 2015 it will produce a mere 16-20 billion cu m of gas), which explains why it prefers the role of a transit country. According to Natic Aliev, Minister of Industry and Energy of Azerbaijan, his country will not join the project until it is sure of the positions of Turkmenistan and Kazakhstan, two key gas suppliers.

"As a huge project, Nabucco cannot rely solely on Azerbaijan," the minister said, "therefore we need to know what Kazakhstan and Turkmenistan think of it before going ahead with infrastructure."

The large number of diverse projects suggests that in the former Soviet Union the lobbying of all sorts of alternative routes that leave Russia out in the cold has developed into a business in its own right. There is no other plausible explanation for why commercially lame projects are appearing: their authors are obviously fishing for feasibility study funding, since no other actions can be taken a priori.

The recent events in the areas bordering on the Caspian suggest that the Central Asian states should be guided by the political context when deciding on oil and gas routes. From this point of view the TCGP looks less than attractive. The recently announced American plans to divide Iraq and create an independent Kurdistan may turn the vast region populated by ethnic Kurds into a zone of a serious armed conflict. This is confirmed by Turkey's readiness to begin hostilities against the Northern Iraq-based Kurds. What is described as a trans-border military operation is, in fact, the armed invasion of another country. The conflict might prove to be a long one: the Kurdistan Workers' Party knows how to wage guerilla warfare, which means that the future (TCGP and Nabucco) and already functioning (BTC) routes, as well as the pipelines from Iraq and Iran to Turkey, will be at risk. The Turkish-Kurdish conflict in Northern Iraq might fan the old ethnic strife between the Kurds and Iraqi Turkmen (or Turkomans) who live in the northwest of Kurdistan. There is the opinion that there are as many seats of potential conflict in the north of Iraq as in its Arab south.

Taken together, the negative political, economic, and resource factors devalue the very idea of a costly gas pipeline across the Caspian.

The Chinese Factor

China, which has become more active and more noticeable on the Central Asian fuel and energy stage, has changed the regional balance of forces. In June 2007, the president of Turkmenistan not only came to terms with Beijing about gas supplies to China, but even signed a document under which the Chinese National Petroleum Corporation received a license for developing Bagtyiarlyk, one of the republic's most promising gas fields. China hopes that it will yield enough gas to fill the new pipeline.

On 3 April, 2006, the then President of Turkmenistan Niyazov and PRC Chairman Hu Jintao signed an intergovernmental agreement on building a gas pipeline between their countries and on selling Turkmenian natural gas to the People's Republic of China. Under this document Turkmenistan is obliged, starting in 2009, to supply China for 30 years with 30 billion cu m of natural gas every year from the gas fields on the right bank of the Amu Darya.

On 29 August, 2007, Turkmenistan President G. Berdymukhammedov paid a working visit to Bagtyiarlyk to launch the practical stage of the Turkmenistan-China project, which will also cross Uzbekistan and Kazakhstan. Of its total length of 7,000 km, 188 km will cross Turkmenistan, 530 km, Uzbekistan, 1,300 km, Kazakhstan, and over 4,500 km, China.

Late in August 2007, in Astana, Chairman Hu Jintao and President of Kazakhstan Nazarbaev signed several documents on cooperation in various spheres. One of them is related to the gas pipeline from Turkmenistan with an annual capacity of 40 billion cu m; the project will be completed by 2010.

The agreements with China give Astana and Ashghabad the opportunity to reach the Chinese energy market, which can be used as a lever of pressure on Gazprom of Russia and (if the TCGP is realized at all) on the European customers.

At the same time, the Turkmenistan-China pipeline, with no detailed technical documents or approved budget, is already being built in Turkmenistan. It looks as if Astana and Ashghabad are using this and similar projects to haggle over gas prices with Gazprom. As for China and its chances to receive gas—we shall have to wait and see.

Russia Still Holds its Position

Moscow is countering the serious efforts of Washington and Brussels, and recently Beijing, to cement their positions in the region with its own measures. So far Russia remains the dominant player in Central Asia.

Challenged by the active American-European diplomatic maneuvers of the last couple of years intended to lure the energy-rich Central Asian countries to their side, Moscow is stepping up its efforts to set up an Energy Club under the SCO's aegis. It is designed as a club of the SCO's major energy producers and energy consumers to coordinate pricing policies and implement regional oil and gas transportation projects. Today the SCO countries control 23 percent of the world's oil reserves, 55 percent of natural gas, and 35 percent of coal reserves.

On 12 May, 2007 Kazakhstan, Turkmenistan, and Russia signed the Declaration on the Caspian Gas Pipeline along the Caspian coast across Turkmenistan territory; 150 km of it will cross Kazakhstan to join the functioning Central Asia-Center gas pipeline at Aleksandrov Gay on the Kazakh-Russian border. Its assessed cost is \$1 billion and its annual capacity amounts to 30 billion cu m. The project was discussed together with the problem of modernizing the old Central Asia-Center pipeline to increase its carrying capacity. Construction is expected to start in 2008, but by 1 September, 2007 (the date fixed by the Declaration), the sides failed to draw up an intergovernmental agreement on construction to fix the dates and launch feasibility studies.

Price disagreements were probably the real cause for the delay: the presidents of Kazakhstan and Turkmenistan decided that they would fix the price for the gas they sell to Gazprom together. According to the Kazakhstan president, "the two countries are equally interested in channeling their resources to the world market for good prices." This means that the Caspian energy resources will be sold to those who would offer the best prices and the most reliable routes. Russia will profit from the Caspian Gas Pipeline together with its Central Asian partners: it has finally agreed to modernize the Central Asia-Center pipeline, something that its Central Asian users wanted.

The project's geopolitical importance is amply illustrated by the West's consistent efforts to find alternative routes and squeeze Russia out. If realized, the Caspian Gas Pipeline will de facto become the regional version of a so-called gas OPEC (initially devised in the Russia + Central Asia format) able to dictate their prices to the European consumers.

THE GROWING ROLE OF NATURAL GAS IN THE EURASIAN ENERGY GAMES

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

An analysis of the current economic and geopolitical processes on the Eurasian continent shows the growing importance of natural gas in the competitive struggle unfolding among the leading industrial countries and organizations for priority access to primary energy sources.

There are many reasons for this keen interest in natural gas. First, the industry's experts are forecasting a probable change in the traditional structures of world energy consumption in the next few decades due to the anticipated drop in oil production at currently exploited fields, which will have a detrimental effect on the overall world production of this primary energy resource.

Despite directly opposite forecasts that rely on positive estimates of land-based, deep sea, and offshore oil reserves, pessimistic moods nevertheless prevail.

Moreover, the forecasts of an increase in global energy consumption, the growth rates of which can no longer be fully met by oil as in the past, are another reason for the growing interest in natural gas.

Yet one more important reason for this is environmental protection, particularly where the Western political-economic expanse is concerned. Keeping in mind that environmental levers are becoming an important tool in the policy of Western countries, adherence to environmental requirements and preservation of the biosphere could artificially whip up natural gas consumption rates throughout the world. Western

environmental organizations are becoming increasingly adamant about reviewing the energy consumption structure of other states and demanding a transfer to more environmentally friendly types of energy.

There is talk that natural gas is becoming the frequent focus of attention due to the extreme politicization of the oil factor. According to some data, in recent years political risk has hiked up the price of a barrel of black gold by 75-80%.

However, it should be kept in mind that politicization of the natural gas factor is also only a matter of time. It is actually already becoming increasingly clear. There is nothing surprising in this, since it is an objective process characteristic of any sphere that plays a specific role in the development and security of the economic system of a particular state or interstate organization.

Several multidirectional trends are promoting and will continue to promote politicization of the gas factor in Eurasia in the next few years.

First, this applies to competition among the leading continental economic forces for priority access to gas production and its transportation routes. This rivalry will grow since more and more players are joining the game. Whereas the continental energy development vectors with respect to consumption were dictated in the past by the Western European countries, the Asian economic boom changed the configuration of the market. The recent powerful industrial upswing in Asia caused by China and India's tempestuous economic growth has already placed the Asian mar-

ket among the global leaders in terms of oil consumption rates. It appears that South and Southeast Asia will also soon be determining the trends on the global gas market.

Second, there is latent and blatant rivalry between the consumers and producers of natural gas. The gist of the matter is that both the first and the second are trying to ensure the most favorable price and transit conditions for themselves, acquire political advantages, and gain access to production, pipeline, and distribution facilities.

The diverging interests are leading to squabbling and contradictions. This is particularly clear if we take the example of Russia's tension with the post-Soviet transit countries and consumers—Ukraine, Belarus, Georgia, Moldova, and the EU. It is logically leading to attempts to coordinate the activity of suppliers, on the one hand, and consumers, on the other.

Third, there is rivalry within the group of producers that runs parallel to the attempts to coordinate activity and is generated by the natural laws of market competition. Each producer is trying to increase its own share on the gas market, push forward its own pipeline projects, and attract foreign investments into the development of new gas fields. Meanwhile, rivalry within the group of producers can also be provoked in some cases by consumers who are trying to prevent cartelization of the delivery market. They are joined, in the form of junior partners, by new players who are attempting to stake out even the smallest segment for themselves on the consumption market, so are ready to make several concessions, even going as far as selling gas at prices lower than those offered by traditional exporters.

The economic estimates of prestigious analytical centers are also pointing directly to the high likelihood of greater rivalry on the world natural gas market. According to the assessments of America's Energy Information Administration (EIA), world consumption of natural gas should grow from 3.3 trillion cubic meters (tcm) to 5.4 tcm by 2030. Blue fuel will occupy the second place after coal in terms of consumption increase.¹

¹ See: Energy Information Administration / International Energy Outlook 2007, Chapter 4, Natural Gas.

Industry and electrical power engineering will continue to be the main consumers of this type of primary energy. Despite the fact that the percentage share of natural gas consumption in the industrial sector will be 43% of the total blue fuel consumption volume (in 2004, it was 44%), there will be a rapid increase in quantitative terms that will outstrip the increase in consumption of liquid hydrocarbons. The annual growth in the industrial sector's demand for natural gas will amount to an average of 1.9%, while the demand for liquid hydrocarbons will be 1.1%.

According to the EIA, the new industrial states will demonstrate the highest blue fuel consumption growth rates. For example, whereas in 2004, the industrially developed countries of the Organization for Economic Cooperation and Development (OECD) accounted for half of all the natural gas consumption in the world, and those countries not belonging to the OECD for 25%, as of 2007, the second group of states demonstrated growth rates that were twice as high as the demands in the OECD zone. Until 2030, the ratio will be 2.6% to 1.2%.

The ratio of own production to consumption will undergo dramatic changes. In 2004, the OECD countries accounted for 40% of the world's gas production and for 52% of its consumption. It is forecasted that by 2030, these indices will amount to 27% and 43%, respectively, whereby average annual production will grow by only 0.4% and consumption by 1.2%. This will result in an increase in the dependence of the developed countries on imported primary energy resources, the volumes of which will grow from 22% to more than 30%.²

As mentioned above, the increase in consumption and greater dependence on imports may directly aggravate rivalry, both among the importers and between the importers and suppliers, as well as promote a permanent change in the configuration of partner ties and the appearance of various large-scale projects with far-reaching geopolitical consequences.

² Ibidem.

European-Russian Segment of the Eurasian Natural Gas Market

At present, the gas axis on the Eurasian energy market is composed of the Russia-EU dyad. The Russian Federation plays the role of natural gas supplier in it, while the European Union is the largest importer of Russian gas.

Today, Gazprom, Russia's monopolist, is delivering more than 150 billion cubic meters (bcm) of natural gas to the European market, thus satisfying a quarter of all the EU's needs. Gazprom is the main energy partner of many European Union countries. For example, Germany meets 43% of its gas needs by means of Russian imports, Italy—30%, Hungary—62%, the Czech Republic—84%, Slovakia and Finland—100%, Bulgaria—89%, Greece—96%, Poland—47%, and France—26%.

Despite the fact that the interdependence between the RF and EU in the gas industry is very high, during the last couple of years these countries have been encountering serious crises which are having a noticeable effect on the entire Eurasian blue fuel market.

Russia's claims to world leadership in the energy sphere, which do not suit Europe and its trans-Atlantic partner, the U.S., form the tip of this iceberg of contradictions. These aspirations began to appear at the beginning of the war on Iraq, which brought about a rapid upswing in hydrocarbon prices.

Although Moscow was and still is opposed to Washington's Iraqi campaign, this war turned out to be an economic boon for it. A significant flow of hard currency revenue from the sale of oil and gas poured into the country, the Russian market became an advantageous entity for foreign investors, national energy companies became noticeably stronger, and the country's gold and currency reserves increased, moving Russia up to third place in the world in terms of this index after the PRC and Japan.

The importance of the problems of the world's energy industry put the country in the limelight as a guarantor of world energy stability. The energy industry should have returned Moscow to the embrace of the global players, and there was every reason for this, if we take the resource indices into account.

For example, Russia's gas resources amount to more than 56 tcm, which corresponds to 27.7% of the world's proven reserves (first place). Gazprom accounts for more than 60% of this amount (or 30 tcm). Russia is producing up to 640 bcm annually, more than 560 bcm of which are generated by Gazprom. According to the forecasts of Western analysts, in the next two decades, the average annual production increase in the Russian Federation will remain at 2%. Russia is exporting more than 200 bcm of blue fuel a year.

Gazprom has the largest pipeline network in the world, via which gas is delivered to the country's internal regions, as well as to 32 CIS and Far Abroad states. What is more, Russia is the leading inner-continental transit state through which blue fuel is transported from Central Asia.

However, Russia's attempts to use natural gas and oil as a way to achieve goals other than economic are arousing noticeable disquiet in the U.S. and EU. Washington is apprehensive about processes emerging and evolving on the Eurasian continent that it cannot control, since the White House has traditional geopolitical claims in this region of the world.

American strategists understand that Eurasia is a key continent, the breakdown in forces on which directly influences all of global policy. In this respect, Russia's efforts to position itself as an independent guarantor of the Eurasian and global energy industry cannot help but arouse anxiety in the U.S.

In Europe, the Baltic countries and Poland are acting as consistent critics of Moscow's global energy plans. They believe that in time, the Russian Federation will try to convert its growing energy and economic influence into political clout, and this will have a direct effect on the fate of the entire European political expanse.

Whereas during the time of Jacques Chirac and Gerhard Schroeder, the leading European states did not entirely share the worries of the young East Europeans, after the changes in the political picture in France and Germany, pessimistic moods have begun to increasingly predominate in the EU regarding the prospects for a Russian-European energy dialog. In so doing, the matter does not concern curtailing cooperation, which is essentially impossible, it concerns the reaction to the new economic and political reality.

The misapprehensions overwhelming the European political circles have specific aspects. Firstly, many people in Europe believe that they are too much at Russia's mercy, particularly against the background of the European countries rather inauspicious energy prospects. For example, there will be a growing imbalance between the increase in consumption and their own production.

Natural gas consumption in the European OECD member states will increase at rather high rates, by 1.4% on average a year. Whereas in 2004, overall consumption of this primary energy resource amounted to 626 bcm, by 2015, it will grow to 760 bcm, and in 2030, it will reach a level of almost 900 bcm. This will largely be promoted by the EU's policy aimed at increasing the share of natural gas in the production of electric power and at reducing the role of the energy-producing facilities that operate on coal, oil, and nuclear feedstock.

The increase in natural gas consumption will go hand in hand with the forecasted decrease in its proven reserves. They are already on the decline today, mainly in Europe's energy region, the North Sea. According to the latest data, reserves have decreased by 400 mcm in the Netherlands and by 66-67 mcm in Norway and Great Britain.

The specific instances of Moscow halting natural gas deliveries during the price disputes with Ukraine and Belarus are also adding to Europe's anxiety. The cutback in blue fuel deliveries to these countries was perceived as a threat to European energy and political security.

Nor does the promotion of Russian companies that have noticeably augmented their financial potential as a result of the increase in hydrocarbon and mineral prices suit the Europeans. The EU states are not happy about the fact that Russian capital is trying to buy up the most important facilities of Europe's economic infrastructure, including energy distribution networks, thus hoping to acquire access to the main source of financial flows, the end consumer.

Many people in Europe and in the West as a whole are also expressing doubts about Moscow's ability to guarantee the EU's energy security with respect to primary energy resources. The European Union has no doubts about Russia's vast potential and proven reserves, the doubts are aroused by the sources of blue fuel already in operation. By way of example, data are presented about depletion of the reserves of such giants as the West Siberian Medvezhie, Yamburg, and Urengoi fields, where 70% of Gazprom's primary energy resources are produced.

To this can be added the increase in natural gas consumption within Russia due to its tempestuous economic growth. At present, up to 435-440 bcm a year are consumed on the domestic market, and this volume will keep rising, which is also confirmed by Russian analysts, some of whom are generally in favor of a significant decrease in gas exports in order to guarantee problem-free provision of Russia's burgeoning economy with this type of primary energy resource.

In turn, official Moscow is trying to convince the European capitals that their anxiety is unfounded. The Kremlin has repeatedly stated that it was and is still Europe's reliable economic partner and intends to fully guarantee the energy security of its economy in the future.

Russia also evaluates the policy of its energy giants aimed at gaining access to the energy infrastructure of the European countries as an attempt to intensify integration of the two leading continental markets. In so doing, examples of granting several Western companies access to the development of promising gas fields, for example, South Russian and Stockman, are presented as proof of just how genuine its intentions are. The Russian expert community often claims that there is nothing unusual

about national companies wishing to penetrate the EU economy, since this corresponds to the “free market” principles that the West customarily practices and promotes throughout the world.

With respect to the energy wars with Ukraine and Belarus, Moscow claims that this is merely the price that has to be paid for contemporary pragmatic policy regarding the new regulations in economic relations with traditional partners during the transition to mutually advantageous gas trading conditions on the market.

But it appears that the level of mutual mistrust is continuing to rise, and the sides are unable to resolve their current problems. Yes, widespread cooperation is going on today and joint production and pipeline projects are being implemented. But behind this façade, a fierce battle is being waged for the right to priority access to natural gas reserves and to determine primary energy resource transportation routes. Its outcome could significantly shape the future configuration of the Eurasian gas market and have serious geopolitical consequences.

The EU's Strategic Steps to Diversify Sources of Gas Deliveries and Reduce Its Dependence on Russia

At present, the European Union and the U.S. supporting it are carrying out a multi-move combination on the Eurasian blue fuel market aimed at gaining access to sources of natural gas deliveries, which should become an alternative to Russia's primary energy resources. Measures are also being carried out to prevent Russian and other foreign companies from gaining a strong foothold on the domestic European energy market.

The Europeans are placing great hopes in their energy diversification policy on gas suppliers from Africa, particularly Algeria. This country is in eighth place in the world in terms of blue fuel reserves, which are estimated at 5.4 tcm (or 2.6% of the planet's reserves). Algeria produces up to 100 bcm of gas a year, 24% of which is consumed within the state, and the rest are exported to Italy, Spain, France, Turkey, Portugal, Belgium, the U.S., Great Britain, and Greece.

Algerian gas is delivered to Europe via two underwater pipelines. The first is the Transmed, which runs from Algeria via Tunisia and Sicily to the Italian peninsula. The route's capacity amounts to 28.2 bcm a year, and in the near future, Algeria plans to increase the pipeline's throughput capacity to 42.3 bcm.

The second functioning gas pipeline is the Maghrib-Europe gas pipeline (GME) with a capacity of 10 bcm a year. It runs from Algeria through Morocco to Spain and Portugal. The exporter country intends to increase the throughput capacity of this pipeline to approximately 21.6 bcm a year.

Algeria is also delivering liquefied natural gas (LNG) to Europe and North America, occupying fourth place in the world in terms of LNG export after Indonesia, Malaysia, and Qatar. The main importers are France, Spain, Turkey, Belgium, and the U.S.

Algeria's plans to increase deliveries of blue fuel (via the existing pipelines), as well as LNG are naturally welcomed by the EU. But the latter does not intend to stop here and is currently working on jointly laying another two high-capacity gas pipelines from Algeria.

In 2001, Spain's Cepsa and Algeria's Sonatrach reached an agreement on building the Medgas pipeline, via which gas will be transported from Algeria to Spain and possibly to France. The cost of the project is 1.2 billion dollars; construction was supposed to begin in 2007 and end by 2009. At the initial stage, the throughput capacity will amount to 4.75 bcm a year and may be raised to as much as 18-19 bcm.

There are plans to put the Galsi gas pipeline, which is already being built, into operation by 2009. Its route will run across the Island of Sardinia to Italy. Deliveries will amount to 12 bcm a year.

In the event all the intended projects to build new gas pipelines from Algeria and increase the capacity of existing ones are implemented, European consumers will receive an additional 42.5 to 56-57 bcm of blue fuel a year, and this is not counting LNG deliveries.

The EU's expert circles regard Algeria as an important partner in the transit of West African gas to the European market. The matter concerns a project to build a Trans-Sahara gas pipeline from Nigeria through Niger and Algeria to the European Union. The route aims to deliver 30 bcm of Nigerian primary energy resources a year. The cost of the project amounts to 10 billion dollars (the African section) and 27 billion dollars (the entire route to Europe). The pipeline will be one of the longest in the world, its length reaching 4,128 km on African territory alone.

Implementation of this plan will make it possible for the EU to gain access to the largest reserves of Nigerian gas in Africa, which are estimated at more than 6 tcm (or 2.9% of the planet's reserves). In terms of this index, the country is in seventh place in the world. The project is still at the discussion stage, but the sides concerned—the Algerian Sonatrach Company and the Nigerian National Petroleum Corporation—are confident that the gas pipeline will be built by 2015.

In order to resolve the EU's energy problem, European experts are looking at the possibility of creating a so-called Mediterranean Ring, in which the states of Northeast Africa—Libya and Egypt, as well as Middle East countries, Jordan, Syria, Lebanon, and Turkey—are planning to participate.

There are plans to create three directions for transporting African blue fuel. First, the pipeline from Lebanon to Italy with an annual capacity of 8 bcm, as well as deliveries of Egyptian LNG to Spain. There are also plans to build an Arabian gas pipeline, via which Egyptian primary energy resources will be transported through Jordan and Syria to Lebanon, Turkey, and Cyprus in volumes of 10 bcm a year. But despite the fact that some sections have already been built, experts doubt the project will go into full operation due to the complicated military-political situation in Lebanon and around Syria.

Keeping in mind the importance of the African countries in the European energy plans, the EU is showing great distress over any attempts by Russian companies to gain a foothold on this market. The contacts between the Russian Federation and Algeria in the gas sphere aroused a particularly nervous reaction. Europe immediately presumed that two of the largest suppliers of blue fuel to the European Union might form a cartel for establishing control over gas prices. The attempts of LUKoil to increase its presence on Egypt's energy market are also perceived with similar caution.

The EU is focusing particular attention on creating a second large-scale energy corridor for delivering gas from Central Asia, the Southern Caucasus, Iran, and Iraq. This is where the European Union and U.S. are directly competing with Russia, since the breakdown in economic and political forces in some of these regions directly affects Moscow's interests and is having an immediate impact on the geopolitical processes on the continent.

With respect to Central Asia, the West is placing priority on laying the Trans-Caspian gas pipeline from Turkmenistan along the bed of the Caspian Sea to Azerbaijan and on, via Georgia, to Turkey. The throughput capacity of the route is to be 30 bcm a year. Hooking up of natural gas from Kazakhstan is also an alternative, although the West is nurturing ever greater hopes with respect to oil deliveries and Astana joining the BTC pipeline.

Such a high interest in Central Asia was aroused by the large volume of proven gas reserves in this region, which are on the steady rise. For example, according to the EIA, Kazakhstan augmented its reserves of blue fuel during the year to 1.16 tcm (or 54%), and Turkmenistan to 960 bcm (or 41%).³ Uzbekistan's reserves are estimated at 2.15 tcm and, in the total proven gas reserves of these three regional countries, amount to more than 4% of the world reserves.

³ See: Energy Information Administration / International Energy Outlook 2007, Chapter 4, Natural Gas, Reserves and Resources.

The EU and U.S. have long been striving to build a Central Asian blue fuel export route through the Southern Caucasus bypassing Russia, but they were unable to come to terms with late Turkmenistan president S. Niyazov. This was mainly due to the tension between Ashghabad and Baku regarding several disputed oil fields, the indefinite legal status of the Caspian sea, and the West's continuous criticism of the Turkmen authorities with respect to human rights violations and non-observation of democratic norms.

The advent to power of new president G. Berdymukhammedov in Turkmenistan aroused the West's interest in the Trans-Caspian gas pipeline. In European and American analytical circles, statements about taking advantage of the unique geopolitical opportunity offered as quickly as possible were heard all the louder. The project to form a network of Nebuchadnezzar (Nabucco) gas pipelines drawn up by the European Union also boosted the West's activity in the Turkmen vector.

But despite the renewed attempts by Western politicians to enlist Ashghabad's support regarding the Trans-Caspian, the new Turkmen authorities are still not giving an unequivocally positive answer, restricting themselves to mere rhetoric. They prefer to continue to develop traditional cooperation with Russia and Iran, as well as hatch plans to create an Eastern corridor of gas deliveries to China.

Talking about the Nebuchadnezzar project, I would like to note that it envisages deliveries of blue fuel from Central Asia and Azerbaijan to the European Union. The length of the pipeline should amount to more than 3,000 km, its capacity to 30 billion cubic meters, and its cost to 5.8 billion dollars. The EU is counting on the gas deliveries to begin as early as 2012.

As for implementation of the above-mentioned development project as such, European Commissioner for Energy Andris Piebalgs and the energy ministers of Turkey, Bulgaria, Rumania, Hungary, and Austria have already signed a special document, and the Nebuchadnezzar project acquired the status of a Trans-European network.

Along with ensuring gas deliveries from CA, this structure would also be entrusted with the task of becoming part of the integrated gas-pipeline "web" that joins pipelines from Central Asia (bypassing Russia), the Southern Caucasus, Iran, Iraq, Northeast Africa, and the East Mediterranean. This network of gas pipelines should promote the export of blue fuel from regions in which, according to preliminary data, reserves are sufficient to meet demand for the next 200 years, while Russia's reserves will only suffice for 80.

However, the inability of the EU and U.S. to ultimately convince Central Asian exporters to begin deliveries in the westerly direction is placing the entire Nebuchadnezzar project under threat. For the time being, the European Union can more or less reliably count on natural gas from Azerbaijan, keeping in mind Baku's desire to become another active participant in the Eurasian gas game. Azerbaijan is ready to cooperate with the EU and U.S. (an example is the Baku-Tbilisi-Ceyhan oil pipeline) and even go for significant discounts in gas price at the first stage in order to gain access to Europe's promising consumer market.

Azerbaijan's ambitions are based on increasing blue fuel production at the Shah Deniz structure, which is considered one of the largest shelf fields to be discovered in the last 20 years. The project operator, British Petroleum, estimates its supplies at 500 bcm of gas and 600 million barrels of gas condensate. According to other expert estimates, Shah Deniz's reserves are more than 1.1 trillion cubic meters in natural gas alone. The country's overall proven blue fuel reserves reach 1.6 trillion cubic meters. The Baku-Tbilisi-Erzurum pipeline is designed for delivering natural gas abroad. At the initial stage, 7.7 bcm a year will be exported along it, gradually increasing to 23 bcm.

The joint efforts of Azerbaijan, the EU, the U.S., and Turkey are already yielding their fruit. In particular, Azerbaijani gas succeeded in gaining access to Greece's strategically important market in mid-2007. Gas from Azerbaijan will be transported through the Turkish pipeline system. Before the end of 2007, 800 mcm of this primary energy resource at 149 dollars per one thousand cubic meters

will be exported to the Greek market.⁴ Azerbaijani gas is much cheaper than Russian, which costs Athens 250-260 dollars for one thousand cubic meters. According to experts, Gazprom could lose up to 15% of the Greek market, and deliveries from Algeria could be reduced by 50%. At present, Gazprom is providing 80% of Greece's needs (2.74 bcm a year) and Algeria is providing 20%.⁵

Despite the fact that Russian analysts talk about how Azerbaijan and Greece are not threatening Gazprom's position on the Greek market, this is probably not the case. In the price respect, Azerbaijani gas is "outperforming" both the Russian and Algerian, which is making it more attractive for consumers.

Moreover, by strengthening its position in Greece, Baku is opening up the prospect of making further deliveries to Europe. This is particularly important keeping in mind the possibility of increasing gas export from Shah Deniz. In the near future, 1.2 bcm will be delivered to Turkey, and by 2009, export would increase to 6.6 bcm.

The success of Europe's diversification policy in this direction could be even greater if large long-term deliveries of blue fuel could be organized from Iran. Some European energy companies have long been exerting efforts to establish cooperation with the IRI in gas import. As early as 2004, a memorandum of mutual understanding was signed between Austria's OMV and the National Iranian Gas Export Co., which concerned possible partnership under the Nebuchadnezzar project. It was presumed that Iran would export its own gas through Turkey to Austria.

It is worth noting that the IRI itself has long been trying to stake out a place for itself on the European gas market. Tehran has been selling Turkey blue fuel since 2002; the delivery volumes of this primary energy resource were to reach 11.6 bcm in 2007. Turkey is seen in Iran's gas plans as a springboard to Europe, which is graphically demonstrated by the fact that Iran and Greece signed a memorandum of mutual understanding in 2003 for a total of 300 million dollars, envisaging an extension of the Iranian-Turkish gas pipeline to Northern Greece, and on, through Bulgaria or Rumania, to Central Europe. There has also been talk of laying an underwater section to Italy.

Nevertheless, the chances of successfully implementing Iranian-European gas cooperation plans are still assessed as low. The complicated political relations between Iran and the U.S-EU over the Iranian nuclear program are to blame for all this. It appears that the sides are still not inclined toward reaching a real compromise and prefer to place the accent on their own vision of the problem, first of all, as a result of which the crisis will most likely become even more aggravated. The latent rivalry between the U.S. and the IRI in Iraq, Lebanon, Palestine, and Afghanistan is also having an unfavorable influence. For the reasons already indicated, Washington is unlikely to look favorably on the development of gas partnership between the Europeans and Iran.

All the same, Tehran is indeed offering a real alternative to Russia in the gas sphere. The proven gas reserves in the IRI are evaluated at 32 tcm (or 15% of the world reserves), which puts it in second place after the Russian Federation. In so doing, it should be kept in mind that 62% of Iranian blue fuel is found in pure gas fields and has still not been developed. Iran has enormous export potential, even despite Tehran's large-scale plans for increasing gas consumption inside the country in order to substitute it as quickly as possible for oil and petroleum products.

Along with the search for new sources of blue fuel, a policy aimed at limiting the influence of Russian capital is gaining momentum in the EU. Europe regards the Russian Federation only as a natural gas supplier. A special control structure for limiting undesirable investments from Russia, China, and several other states is being created today in Germany, which during Schroeder's time was Russia's main economic and energy partner in the EU. The structure's task will be to prevent foreign companies from purchasing strategically important German enterprises.

⁴ See: "Baku otbivaet Gretsiiu i Turtsiiu u 'Gazproma.' Azerbaijan nachal dempingovye postavki gaza," *Vremia novostei*, 4 July, 2007.

⁵ See: Ekspert: "Azerbaidzhanskiy gaz 'Gazpromu' ne pomekha," *Rosbalt*, 4 July, 2007.

In Great Britain, political circles are actively opposing Gazprom in its purchase of Centrica, a leading British gas-distribution company. The story of the sale of the Lithuanian Mazeikiu Nafta oil refinery still comes to mind, when the Russian companies offering the most advantageous gas sales and supply conditions were overlooked and the refinery sold to Poland's PKN Orlen, which did not have enough resources to fully load the refinery's capacity. Many Russians believed that this was done for exclusively political considerations.

According to Russian economists, between 2006 and 2007, transactions of Russian companies totaling 82 billion dollars fell through due to active opposition from European officials.

Russia's Energy Strategy

In its energy strategy in the European vector, the Russian Federation is trying to solve several tasks at the same time, the goals of which often overlap each other. First, Moscow is exerting efforts to retain its position as a leading natural gas supplier on the European market. Gazprom essentially does not have any other choice at present but to develop energy relations with Europe, taking into account that most of the export gas pipelines are oriented toward Europe. Moreover, Russia is showing an interest in further increasing its deliveries and is developing and implementing plans to build new gas-transportation capacities to this end. These plans are based not only on economic, but also on far-reaching strategic considerations.

It has already been mentioned that Moscow is trying to integrate as deeply as possible into the economic systems of Russia and Europe in order to form a single market space on which the European and Russian segments would be interdependent. This would make it possible not only to give the economic component priority over the political, but also to create conditions for changing the overall political climate in bilateral relations, in which the ingrained negative stereotypes of the past are still latently and blatantly present.

Based on this, the Russian Federation is placing its stakes on increasing blue fuel deliveries to Europe and implementing new large-scale gas pipelines—the North European (NEG) and South Stream—as soon as possible. NEG is intended for exporting Russian natural gas to the states of the northern part of Europe—Germany, France, the countries of the Scandinavian Peninsula, and Great Britain. The initial throughput capacity of the pipeline will amount to 30 bcm with a gradual increase to 55 bcm a year. The NEG's route will pass along the bed of the Baltic Sea. In turn, the South Stream will run along the bed of the Black Sea from Novorossiisk to the Bulgarian coast and on through the Balkan peninsula to Italy and Austria. The capacity of the gas pipeline will amount to 30 bcm a year. In this way, these two projects alone will make it possible to provide European consumers with an additional 60-85 bcm of blue fuel.

Nevertheless, if we keep in mind the gas and geopolitical rivalry in Eurasia, these pipelines are pursuing a few more important goals. They must primarily diversify the delivery routes of Russian gas to Europe, as well as lower Gazprom's dependency on the East European transit states and the Baltic countries. Moscow faced similar tasks after the Orange Revolution in Ukraine, when the pro-Western Iushchenko-Timoshenko coalition came to power. An additional factor was the rather difficult political relations between Russia and several Baltic countries and Poland. As a result, a course was steered toward creating new gas corridors which would minimize the risks coming from East European transit states.

The South Stream pipeline is entrusted with an unusual task, particularly in light of Europe's attempts to implement the Nebuchadnezzar project. By building the South Stream, the Russian Federation is planning to gain an even firmer foothold on the South European gas market and downplay any possible negative effects from the implementation of the rival European project.

South Stream's importance for Moscow in its competitive struggle for the European gas market lies in the fact that blue fuel from Central Asia, which plays a critically important role in supplying Europe's Nebuchadnezzar with primary energy resources, can be delivered via it. South Stream is called upon to strengthen Russia's position in the gas dialog with Turkey. It is no secret that the latter is trying to position itself as a key energy and transportation terminal on the route of the Southern Caucasus' oil and blue fuel deliveries from the Russian Federation, Central Asia, Iran, and Iraq to Europe. Ankara is hoping to raise its importance even more by attracting the new regional pipeline projects. In addition, the Turks want to earn money by reselling the gas they receive.

It goes without saying that Russia does not want to further increase its dependence on Turkey, which is already having a negative effect on oil transportation and forcing Russian exporters to look for new detour delivery routes, in particular through Bulgaria and Greece (the Burgas-Alexandroupolis oil pipeline project). Nor does the Russian Federation want to place all the trump cards in Ankara's hands in the gas sphere, particularly since it is Moscow's rival in the South Caucasian and Central Asian geopolitical vectors.

In this respect, South Stream is being called upon to reduce Turkey's transit dependence. After this pipeline goes into operation, Turkey will no longer be an exclusive, but only one more ordinary transit country for Russian and Central Asian gas in the Black Sea region, although it is still extremely important. By making Bulgaria and Greece energy transit terminals, Moscow is turning them into Turkey's natural rivals and Russia's energy allies.

A decrease in Ankara's transit potential could also have long-term goals, make it more compliant in possible negotiations with Russia about a project to build a second branch of the Blue Stream gas pipeline, as well as prompt Turkey to take more account of Russia's interests in the Southern Caucasus.

A special feature of Russia's policy in Eurasia and in the European vector is retaining its position as the main partner of the Central Asian states in the transit and purchase of natural gas. In this respect, it is extremely important for Moscow to prevent the Trans-Caspian route from being built, since the latter might deprive Russia of the cheap Central Asian blue fuel it so badly needs.

Moreover, implementation of the pro-Western pipeline project will have a negative effect on Russia's position in the region and may affect the country's global ambitions. The thing is that military-political and economic partnership with the Central Asian states is a significant geopolitical resource for Moscow in its strategy to restore the Russian Federation as a leading world power. Russia's loss of its transport monopoly in the region (in the Western vector) will lead to intensified geopolitical rivalry with such centers of power as the U.S. and EU, which, following natural logic, will try to build on the success they have already achieved.

Taking into account these circumstances, Moscow was apprehensive about the change in power in Turkmenistan, which made review of Gazprom's former agreements with president Niyazov on the purchase of Turkmen gas for 25 years doubtful and also created prerequisites for restoring contacts between Ashgabad and the EU and U.S. regarding the Trans-Caspian pipeline.

The Kremlin decided to forestall any negative turn in events. First it made an effort to obtain assurances from the new Turkmen authorities that they intended to observe the 25-year gas agreement. Russia also managed to achieve preliminary agreements in the shortest time with Turkmenistan and Kazakhstan on building the Caspian pipeline. In addition, the Russian Federation made arrangements with Uzbekistan to increase the capacities of the Central Asia-Center gas pipeline that is in operation. Moscow also hopes to join Uzbekistan to the Caspian pipeline.

Russia's emergency measures came as a surprise to Western strategists. The agreement on the Caspian route gave rise to a large number of gloomy assessments about the prospects for redirecting Central Asian gas resources to Azerbaijan, Turkey, and the EU. The pessimism is based on the fact that the European countries will miss out on at least 30 bcm of Turkmen blue fuel, the throughput

capacity of the Caspian pipeline, which they could have received via the Trans-Caspian. If the future increase in deliveries via the Central Asia-Center route is added to this, potential losses could double.

It should be noted that reaching agreements about the Caspian gas pipeline and increasing the capacity of the Central Asia-Center pipeline would have been impossible without the constructive and pragmatic position of suppliers from Turkmenistan, Kazakhstan, and Uzbekistan.

The future of the Trans-Caspian will largely depend on the prospects for creating new gas fields on the Turkmen shelf of the Caspian Sea, as well as on the South Iolotan structures that, according to preliminary assessments, might contain several trillion cubic meters of blue fuel.

Russia's steps to study the possibility of consolidating the leading world producers of natural gas can be evaluated in the context of the Eurasian gas game and energy rivalry between Russia, on the one hand, and the EU and U.S., on the other.

The West's current strategy consists of preventing the appearance of a powerful alliance of gas producers (modeled on OPEC). In the 1970s, the Western countries felt the entire power of the oil weapon wielded by the Arab producers of black gold, so they have no intention of tolerating the appearance of another energy cartel.

It is easier for European and American importers to deal with individual gas suppliers, since they can use their political and economic supremacy more effectively to achieve advantageous conditions with respect to prices and transportation routes and draw Western companies into projects aimed at producing and prospecting blue fuel. The appearance of a gas cartel in which gas prices will be determined by the producers in no way fits in with the long-term economic and political plans of the EU and U.S.

Moscow, on the other hand, will benefit from close cooperation with gas exporters, since this will give the suppliers a powerful lever of influence on the world market and global political expanse. For this reason, several regional and planetary ideas are being mulled over in Russia's political circles.

First, there is the SCO Energy Club designed to consolidate the natural gas suppliers belonging to this organization. Moscow's analytical community thinks this is a very propitious idea, keeping in mind that such leading oil and natural gas producers as Russia, Kazakhstan, and Uzbekistan are members of the SCO. Moreover, Iran, a world energy giant with the desire to raise its status in the organization and work more actively in various vectors of the SCO's development, is an observer country. Cooperation in the energy sphere is possible with Turkmenistan which, although it does not belong to the SCO, is closely related with several member states of this structure due to common interests in blue fuel delivery and transportation.

In the event the idea of the Energy Club is realized, a powerful oil and gas organization will appear in the very center of Eurasia, the influence of which on the continental energy processes will be impossible to ignore.

A very original feature of the Energy Club is that it will enhance cooperation with the leading world consumers of energy resources, China and India, whereby the first is a permanent member of the SCO, and the second is an observer state. Partnership between suppliers and these states will make it possible to closely follow the world energy processes, keeping in mind that the Asian segment of the global oil and gas market is already defining many of its parameters.

For Russia, the possible development of energy relations with the PRC and India within the SCO could pursue far-reaching goals that directly affect the global interests of suppliers and importers. By agreeing to take account of the energy interests of China and India, the Russian Federation is encroaching on the EU's and U.S.'s room for maneuver.

It is very obvious that the United States, the EU, and several of its allies from the CIS have, on the whole, a consolidated view of the structure of the Eurasian and world natural gas markets. Despite certain differences in views with China and, to a lesser extent, with India in several energy regions of the world, the West may try to draw them onto its side in order to create a kind of joint front of natural gas consumers in counterbalance to the trends toward cooperation being demonstrated among pro-

ducers. In this respect, strengthening Moscow's energy ties with Beijing and Delhi in the SCO Energy Club could decrease the likelihood of broad opposition from blue fuel importers.

The second strategically important vector is Russia's attempts to feel out points of interception in interests with the leading world players on the delivery market of the indicated primary energy resource. A first step was participation in the 6th summit of natural gas producers and exporters held in April 2007 in Doha (Qatar). This event aroused a great response in the world, particularly in the West, since three countries with the largest reserves of blue fuel, Russia, Iran, and Qatar, participated in it along with other primary energy resource producers.

The participants in the meeting were immediately suspected of attempting to create a Gas OPEC, particularly since this idea was earlier put forward by Iran, but nothing of the sort happened. The main goals of the summit were to define the prospects for forming a global open natural gas market and identify conditions for possible interaction among producers, although a few specific results were achieved, in particular, an organizational group was created to determine gas prices.

It is presumed that, along with establishing relations with blue fuel producers, this meeting helped Russia to keep track of the situation and development trends on the liquefied natural gas market. The Russian Federation is trying not to lag behind the leading producers of LNG and not lose sight of the nuances in creating a global liquefied gas market. This desire is based on the forecasts of the leading analytical centers on the future increase of LNG production and consumption. At present, the percentage of the latter in world gas trade amounts to 26.2% or around 190 bcm, while pipeline deliveries account for more than 530 bcm. However, as early as 2010, the share of LNG might increase to 30-33% and will keep growing, weakening the position of pipeline deliveries, the share of which in world blue fuel trade could drop to 38% by 2020.

Gas producers and exporters are already preparing for new market realities and increasing investments in industrial and transportation infrastructure. According to the International Energy Agency, in the next three years, energy companies will invest up to 135 billion dollars in the construction of new LNG terminals and tankers.

Russia also plans to play an important role in the development of the world LNG market, since its monopolist, Gazprom, is hoping to become a leader in LNG production by 2030. The company intends to achieve this by putting several powerful liquefied natural gas production plants into operation. As early as 2008, deliveries of LNG from Sakhalin-2 should begin—approximately 4.8 million tons a year, which could be doubled in the future. The export of LNG from the east of the Russian Federation will give Gazprom access to the markets of North America, Southeast and South Asia, and the Far East. By 2011-2012, there are plans to put an LNG production plant into operation in the west of Russia (Primorsk) with a capacity of 5 million tons a year.

From the perspective of the energy dialog with the EU, the development of the Russian Federation's LNG deliveries will help it to strengthen its negotiation position, which is rather vulnerable at present since the lion's share of exported blue fuel is pumped via pipelines that are tied to the European market. However, the orientation toward LNG will make it possible deliver this primary energy resource anywhere on the planet, and not only to the European market, as was the case with pipeline gas.

Influence of the Asian Economy on the Continental Natural Gas Market

Despite the fact that Russia and the EU are and will remain the key links on the continental gas market in the near future, the Asian energy market, where two of the most rapidly developing countries, China and India, stand out, is nevertheless steadily growing in influence.

Although the share of natural gas in the overall energy resource consumption of both states is still rather small (in China, it is 3%, and in India, 8%), the course being steered by these countries toward an increase in its production and import, as well as the implementation of gasification programs and replacement of other types of raw hydrocarbons, makes it possible to say that in the foreseeable future China and India will seriously change the configuration of the traditional primary energy resource delivery systems in Eurasia. These states are essentially already making adjustments to the energy plans of blue fuel suppliers from Russia, the Middle East, and Central and Southern Asia, as well as of traditional large importers of pipeline gas and LNG from North America, Europe, and the Far East (Japan and South Korea).

A common characteristic of the PRC and India is the fact that these two energy players do not have proven reserves of natural gas that could guarantee them long resource self-sufficiency and, consequently, full energy security. In this respect, Beijing and Delhi are looking for the most optimal gas strategies.

China is in a more advantageous position compared with India since it has several large gas-bearing provinces in the western and northern regions of the country. The PRC's proven blue fuel reserves are estimated at 1.7 tcm, or, according to other data, at 2.7 tcm. Extensive geological survey work by Chinese companies resulted in the discovery of several large fields in the past two years, which make it possible to talk about an increase in proven crude gas reserves of 900 million cubic meters.

Under recently, gas consumption in the PRC was regional, giving rise to the fragmentary structure of the national pipeline system. But Beijing is exerting efforts to create an integrated blue fuel market, the key role on which should be played by several gas pipelines intended for delivering this primary energy resource from the western provinces to the industrial centers on the coast. The first of them is the West-East pipeline put into operation in 2005, which begins in XUAR and ends in Shanghai; its throughput capacity amounts to approximately 15 bcm a year.

Such volumes are naturally insufficient for China's rapidly growing economy, the gas share in energy consumption of which should at least double in the next few years. According to experts, in 2020, the PRC may experience a shortage of 50-60 bcm, which will have to be covered by means of import. This is forcing Beijing to look for additional sources of gas abroad, and at this juncture a rather interesting situation is arising that is complicating the Eurasian and world gas game.

On the one hand, China is acting as a potential rival of the large gas importers—the U.S., EU, Japan, and others, as well as, correspondingly, a prospective partner of the suppliers, including the Russian Federation. But, on the other hand, with respect to the key Russian factor on the Eurasian gas market the PRC is also acting as a rival in the Central Asian expanse and hypothetically at the global level (Gas OPEC), which is creating the theoretical possibility of a partnership between Beijing and the leading importers. This is giving rise to a rather ambiguous situation on the continental and world energy markets.

The PRC will mainly vie with the leading gas consumers on the LNG market, particularly since there are few large suppliers on this market. During the past year, China demonstrated simply unbelievable LNG consumption and import rates. In July 2007, its liquefied natural gas deliveries increased five-fold (from 62,427,000 to 356,139,000 metric tons) compared to the same period in 2006. This increase was caused by demand from electric power companies. The purchased gas is mainly delivered from Algeria and Australia.

It is very obvious that if the high rates of Chinese LNG import (for example, from Algeria) are retained, this will make the PRC a serious rival of the European Union and U.S., which also purchase Algerian liquefied gas. China will come face to face with Japan and South Korea on the Asian market.

The rise in demand for LNG will force the PRC to become increasingly involved in the Persian Gulf, which possesses vast supplies of blue fuel and the states of which are hoping to become leaders on the LNG market. Today, the total proven reserves of natural gas in the Gulf states amount to more

than 40% of the world reserves. Such states as Iran, Qatar, Saudi Arabia, and the United Arab Emirates occupy second, third, fourth, and fifth places, respectively, on the planet after Russia.

The Gulf countries are stepping out onto the LNG market with increasing vigor. The region has already claimed an 18-percent segment of world trade. A large amount of gas is exported to Japan (46%), South Korea (24%), India (17%), Spain (14%), and the U.S. The leaders in terms of deliveries are Qatar and the UAE.

Qatar is demonstrating particularly impressive development rates in the gas industry. It owns the largest shelf field in the world, the North field, with proven reserves of more than 30 tcm. It is worth noting that Qatar made its debut on the LNG market relatively recently. In 1997, the first delivery of 120,000 metric tons of liquefied gas was made, however, by 2005, these deliveries amounted to 20.1 million metric tons, placing the state among the world leaders. It is forecast that export will grow even more if we keep in mind this country's plans to build another series of plants for producing liquefied natural gas.

Qatar and the Persian Gulf as a whole are regarded by the EU states, the U.S., Japan, South Korea, and the industrially developed countries of South and Southeast Asia as a long-term source of natural gas deliveries, particularly against the background of the forecasted drop in production in Indonesia.

In this respect, China's growing economic and political presence in the region may not please everyone, particularly the United States, which believes the territory in question to be a zone of its traditional influence. American strategists are concerned in particular about the contacts between Beijing and Tehran in the oil and gas industries, which regard each other as prospective energy partners. In particular, in 2004, China and Iran signed a memorandum, according to the conditions of which China's Sinopec Group will develop Iran's Iadaravan oil field in exchange for Beijing's annual purchases of 10 million metric tones of Iranian LNG for 25 years and the construction of a liquefied gas plant. The cost of the agreement is estimated at 100 billion dollars. And although today, according to American data, Iran still does not have large LNG-producing capacities, the country could become the supplier of 35 million tons of liquefied gas a year in the future. Tehran is making no bones about the fact that the Chinese market will be one of its main export vectors.

The second key vector in the PRC's strategy for importing blue fuel is gaining access to pipeline deliveries from neighboring regions, Russia and Central Asia, which is important for China not only from the economic, but also from the military-strategic viewpoint. The thing is that Chinese import of oil and LNG by tankers via sea routes is rather vulnerable, since Beijing does not have a strong military ocean fleet and bases in South and Southeast Asia. If a conflict arises on the oil and gas sea transportation routes, China's energy security may be threatened. In turn, intra-continental pipelines will make it possible to minimize the risks, since the routes will pass through the territories of states that are stable and friendly with the PRC.

The promising projects for Beijing include plans to lay a gas pipeline from the Kovykta field near Irkutsk (RF). The route of the pipeline incorporates North China and the Korean peninsula. Beijing has already stated its intentions to purchase more than 23 bcm of gas a year, but, according to experts, it will not be able to do this before 2012, and perhaps even later, keeping in mind the tension between Gazprom and TNC-BP, which has a 63% share in the project.

This fact is forcing the PRC to concentrate its efforts for the time being on implementing the plans to deliver blue fuel from Central Asia. The main hope is placed on two gas pipelines—Kazakhstan-China and Turkmenistan-China. So far the dialog between Beijing and Ashgabad has progressed the furthest. During his first visit to the PRC, President Berdymukhammedov confirmed the agreement of Turkmenistan's former president with the Chinese side of 3 April, 2006, which stated that Ashgabad will deliver 30 bcm of gas a year beginning in 2009 for 30 years. At present the Kazakhstan-China pipeline project is at the analysis stage. It is also designed to export 30 bcm of natural gas a year.

The implementation of these plans will change the entire traditional system of the region's gas deliveries, which, of course, will have an effect on the geopolitical situation in Central Asia. In this respect, it can be presumed that the PRC, as it moves toward the practical implementation of its projects, will encounter increasing concern from Russia and the EU. This prospect does not suit the Europeans at all, since deliveries to China will reduce the chance of the Trans-Caspian gas pipeline being built to almost zero. In turn, the Russian Federation is apprehensive about Turkmenistan's resource potential. As some Russian experts believe, Ashgabad is unlikely to be able to fulfill the obligations to both Gazprom and Beijing it assumed, relying on current reserves. Russian analytical circles believe that Ashgabad can redirect some of the blue fuel intended for Gazprom in the Chinese direction. Moscow's misapprehensions are generally substantiated and rely on Art 2 of the Chinese-Turkmen agreement which says that "if additional volumes of gas are needed to build the Turkmenistan-China gas pipeline, the Turkmen side can guarantee gas deliveries from other gas fields."

Meanwhile, the Turkmenistan leadership is trying to dispel Russia's anxiety and show that the raw gas reserves on the right-hand bank of the Amu Darya are sufficient for ensuring export to the PRC and that Moscow's worries are groundless. During the ceremony to lay the gas pipeline held at the end of August 2007, President Berdymukhammedov stated that the rich gas reserves on the right-hand bank of the Amu Darya were confirmed by local scientists, specialists from foreign companies, and independent experts. These resources were evaluated at 1.3 tcm. By 2009, this territory will be able to provide the pipeline with 30 billion cubic meters of gas a year.

Beijing's active attempts to gain access to the Central Asian gas market have muddied the waters even more and raised competition in the region to an even higher level. A particular sensitive situation is developing in this respect in interrelations among the Central Asian states, China, and Russia.

There are no doubts that the appearance of another delivery corridor is beneficial for suppliers from Central Asia, particularly since, after gaining their independence, they declared one of the strategic aspects of their policy to be diversification of hydrocarbon export routes. On the other hand, Moscow, the leading strategic partner, is not going to greet the opening of a Chinese gas corridor with open arms.

This is well understood in Turkmenistan, which is striving to readdress possible Russian claims against Turkmenistan to Beijing and place all the responsibility for resolving transit questions on the PRC. This is directly indicated in Art 5 of the General Agreement which states that "the Chinese Side will hold consultations with the governments of transit countries in order to reach agreements on mutually advantageous conditions of natural gas transit through their territory."

On the other hand, nor does the PRC want to be drawn into an acute competitive struggle with Russia, which is acting as Beijing's partner in the SCO, plays an important role in ensuring regional security, and poses as a key business companion in deliveries of the latest arms. China is also placing great hopes on the Russian Federation in the energy sphere, but at the same time, the PRC is in critical need of additional and safe sources of energy.

For Moscow, on the other hand, the striving of the CA states to diversify export and Beijing's intentions to become a consumer of Central Asian hydrocarbons, particularly against the background of launching the Atasu-Alashankou oil pipeline and the beginning of construction of the Turkmenistan-China gas pipeline, present factors that cannot be dismissed or ignored.

In this situation, it appears that Russia will have no other option in the long term than to review the possibility of its own participation in the development of the eastern corridor of gas deliveries. It is particularly pertinent that for several years the Russian Federation has been looking at the possibility of reducing its dependence on the European market and setting up export of its crude hydrocarbons from Western and Eastern Siberia to China and the Pacific Ocean region. The Russian pipeline company, Transneft, began building the Angarsk-Nakhodka oil pipeline not that long ago. Gazprom is looking at similar projects for laying export routes. They are all called upon to balance the export

component of Russia's energy policy, which is leaning heavily toward extreme dependence on the European market.

In this respect, one of the alternatives for developing an Asia Pacific vector in Moscow's export-energy policy could be joining a project to create and develop an eastern pipeline corridor from Central Asia and Siberia to the PRC. Theoretically, such cooperation with Central Asian exporters could have several benefits for Russia. Gas export to the PRC will naturally create a serious alternative to the EU market, which will strengthen Russia's position in its difficult energy dialog with Western partners and make Russian export policy in the delivery of crude hydrocarbons more flexible.

Moreover, orientation toward the offshore market of the industrial region of Shanghai, which will presumably become a key consumer of Central Asian gas, might be more preferable for Russian companies from the commercial viewpoint. The thing is that deliveries of blue fuel to the northern and northeastern provinces of China currently being considered in the RF have one weak point—these regions have huge reserves of coal which is produced on an industrial scale. This fact makes it possible for the northern provinces of the PRC to flexibly alternate sources of energy consumption and, if they want, quickly replace future deliveries of Siberian gas with coal. The coal factor will most likely help Beijing to form a stronger negotiating position in its upcoming price dialog with Gazprom.

In contrast to the northern provinces, the Shanghai market will continue to give priority to a rapid increase in blue fuel consumption and import volumes, which is primarily for environmental reasons, particularly against the background of the mounting discussion in world political and economic circles of the problem of environmental pollution. The use of natural gas will make it possible to reduce the load on China's railroad transportation system, which, according to some data, is experiencing significant difficulties today due to the transportation of growing volumes of coal.

The joint development by Central Asian exporters and Russia of the Eastern energy corridor on the basis of some pipeline consortium could create conditions for suppliers to coordinate their positions in order to determine export prices for the gas delivered to the PRC, forecast the growth dynamics of market demand, and regulate the exported gas volumes.

This will all help to reduce unnecessary competition to zero and make it possible for all the sides involved to glean the maximum benefit, while dismissing any misapprehensions and mistrust that exist.

As for India, it, like China, is also gradually gaining momentum as a driving force behind the development of the Asian energy consumer market. At present, the country is mainly visible on the oil market; while it is forecast that its role on the gas market will grow in the next few years. Delhi has long been steering a course toward achieving energy independence, but these ambitious plans are probably not destined to be, keeping in mind its rather poor primary resource base compared with the dimensions of the economy and rates of its development, including in energy consumption. Proven gas reserves in India are assessed at approximately 1.26 tcm (annual production amounts to 33.2 bcm). In so doing, gas consumption is growing at rather high rates, outstripping the consumption of other types of energy resources in the past five years. As early as 2004, consumption exceeded the country's own production and amounted to 36.3 bcm.

Despite the fact that some offshore sectors were discovered in the Bengal Gulf in 2006 with forecasted reserves of 700-730 bcm, none of this can make the Indian market self-sufficient with respect to crude gas provision. As in the case of China, India was forced to place even greater stakes on import, which is creating prerequisites for drawing Delhi into a global competitive struggle for natural gas.

India began importing the first large batches of LNG in 2004 from Qatar, whereby the growth dynamics are quite significant: whereas in 2004, 3.1 billion metric tons were imported by sea, in 2005 this amount rose to approximately 7.5 billion. Indian companies did not intend to stop there, which was directly shown by the plans to build facilities for receiving LNG. In addition to the first terminal, Dahej, in the state of Gujarat, with a capacity of 5 million metric tons a year, a second terminal is being built in Kochi capable of receiving from 2.5 to 5 million metric tons. It should go into operation in 2009.

Moreover, the future of the LNG import sector, from the viewpoint of development rates, will largely depend on whether India can implement alternative gas-pipeline projects. At present, Delhi is experiencing serious difficulties in this direction for geopolitical reasons. This primarily applies to the Iran-Pakistan-India pipeline designed to export 21-22 bcm of Iranian gas from the South Pars field to the Pakistani and Indian markets.

After declaring its support of the plan to build a gas pipeline as early as the mid-1990s, Delhi was drawn unwittingly into the Eurasian gas game, becoming a target of tough pressure from the U.S., which was categorically against this project. There is also a large number of opponents to this gas pipeline in India itself who believe that Pakistan, through the territory of which this pipeline will pass, is an unreliable partner.

All of this is naturally slowing down implementation of the project, although Indian officials do not tire of expressing their willingness to continue cooperation under a trilateral agreement. But it seems that the delay in putting this plan into practice is already beginning to wear on Iran's patience, which is looking for ways to reach bilateral agreements with Pakistan.

Nevertheless, the Iran-Pakistan-India pipeline was supported by Vladimir Putin and Gazprom. According to the Russian president, "Gazprom is willing to support the construction of a gas pipeline from Iran to Pakistan and India. This project is entirely refundable and extremely feasible. The joint venture will make it possible to coordinate efforts on the markets of third countries and will be able to join fields on the territories of both countries."⁶

Such a statement should most likely be viewed in the context of the Eurasian gas game. By supporting the Iran-Pakistan-India route, Moscow may be striving to reach several goals. First, operation of the gas pipeline will make it theoretically possible to redirect large amounts of Iranian blue fuel from the European to the Asian market. This step, if it does not remove it entirely, will at least minimize the Iranian gas threat to Russia's position on the EU market. The Iran-Pakistan-India pipeline will serve as an additional factor for decreasing the likelihood of the Iranians joining the Nebuchadnezzar project, along with the factor of America's political-diplomatic and economic pressure. On the other hand, by supporting Tehran in its attempt to begin exporting blue fuel to India, Moscow is paving the way for joint specific interests to appear in the two countries on the corresponding market, which could stimulate intensification of bilateral energy cooperation and, on the whole, strengthen the position of suppliers on the Eurasian gas market.

In turn, India is facing a difficult dilemma. Taking into account that the deadline for implementing the project is already upon it (gas export should begin in 2011), Delhi has less time to ultimately determine its position. If the pipeline is built, it is likely that complications will arise in relations between Delhi and Washington.

In the event of a refusal to lay the pipeline, India risks losing not only Iranian pipeline gas, but also LNG deliveries from Iran. The thing is that in January 2005, the IRI and India signed an agreement according to which Delhi, along with developing the Iadaravan and Jofeir oil fields, promised to purchase 7.5 million tons of LNG a year over the span of 25 years beginning in 2009. The total cost of the contract is estimated at 40 billion dollars.

It will be rather difficult to find an alternative to Iranian gas. Such promising projects for India as the Turkmenistan-Afghanistan-Pakistan-India and Myanmar-Bangladesh-India pipelines are still difficult to implement. The domestic conflict continues in Afghanistan, which makes investments in the project risky. In turn, the complicated domestic political situation in Myanmar, its growing isolation from the Western world, as well as the difficulties in the negotiations between India and Bangladesh, in which the latter is acting as a transit state, are hindering gas deliveries from this country.

⁶ "Gazprom' tianet trubu v Indiiu iz Irana," *Kommersant*, No. 108, 17 June, 2006.

In this respect, Delhi may not have any other alternative but to choose liquefied natural gas which, in turn, will promote even greater aggravation in the future of the competitive struggle on the Eurasian and global LNG markets.

C o n c l u s i o n

Summing up the above, I would like to note that drawing up new rules of the game and augmenting the structural changes on the Eurasian gas market will not happen overnight. All the participants in the energy game, including the suppliers and the consumers, are essentially searching for the most optimal strategy alternatives today, while striving to ensure more advantageous positions for themselves on the market. The signing of agreements does not mean that the exporter or importer will not look for alternatives, say in terms of transit or increasing the number of energy partners. The processes on the natural gas market will essentially place the emphasis on as much diversification as possible and on achieving the most advantageous price conditions. This will most likely result in a rather high level of mutual mistrust in certain vectors of commercial interrelations in the gas sphere. The various geopolitical considerations that can be seen quite clearly behind large gas transactions and projects will aggravate this factor, which of course will add fuel to the fire on the continental natural gas market.

PRESENT-DAY TITANOMACHY OR THE NATURE OF ENERGY GEOPOLITICS IN CENTRAL ASIA

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After fifteen years of development the outlines of the new international system remain rather vague mainly because international cooperation (dominated by the globalizing economy) has not yet acquired definite features and the leading international actors are still readjusting their foreign policies. These processes have already affected the foreign policy of most states and their ideas about geopolitical strategy in today's dynamic world.

Rapid economic development in the world's leading countries requires an ever-larger amount of energy resources (oil, gas, coal, uranium, etc.), which has already affected the nature of international politics: political systems are growing increasingly dependent on energy sources and transportation routes.

We are living in a world where those who produce energy sources, those who transport them, and those who use them occupy the main niches. Recently, this hierarchy acquired another, and most important, structural element: the mighty powers resolved to keep the entire energy chain under their control and influence the geopolitical processes in every corner of the world by deciding where the

energy sources should be moved. Energy geopolitics and its central formula, “he who controls the energy sources controls the World,” have come to the fore as one of the geopolitical pivots. After all, the energy issue is indispensable for continued secure and sustainable development.

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Each of the geopolitical dimensions has specifics of its own rooted in local history, the geographic location of states and the place any given state holds in the world and the region, its competitive and innovation potential, the balance of forces between states or groups of states, and the corresponding checks and balances. In Central Asia, cooperation in the energy sphere reveals several critically important issues: first, the mutually acceptable status of the Caspian Sea and the related issues of energy source production and transportation. Second, the widest possible network of international transport communications needed to diversify the region’s contacts with the world. The ever-growing amount of energy resources produced and the related shifts in international relations are responsible for the militarization of the Caspian; they have already encouraged multisided cooperation and rivalry.

The Central Asian countries have to develop both longitudinal and latitudinal transport corridors, a task that affects the widest possible range of economic and geopolitical interests. In fact, the pipeline system and its potential development reflect the balance of interests among all sorts of actors: regional security obviously hinges on the geopolitical dimensions of Central Asia’s existing and future transportation lines.¹

The regional and world powers are actively exploiting the interest of the Central Asian states and Azerbaijan in the “pipeline games” to promote their tactical and strategic interests. Kazakhstan, one of the oil-producing leaders on the Caspian shelf, has to pay much attention to the transportation routes. Every time a new project is laid on the table, it has to coordinate what it wants with the varied and even contradictory interests of the Middle Eastern countries, Russia, the U.S., the West European and the Far Eastern states.

The year 2007 was dominated by the following dilemma: was it politics or economics that underlay the Central Asian oil and gas projects? Moreover, it was a time of mounting conflict between Moscow and the West. Russia stepped up its involvement, while Europe hastened to respond, not always skillfully, with attempts to move Central Asia resources to its markets. Moscow and Brussels are obviously moving toward an uncompromising trade war. The energy-related confrontation was exacerbated by the mounting political conflict between the West and Russia. Some politicians started talking about another Cold War.

Scared by the prospect of total dependence on Russia’s Gazprom and instigated by the anti-Russian sentiments of some of its new members, the European Union launched an open campaign against Russia and its energy policy. Dependence on foreign energy sources has already driven some of the EU members to hysterics, which does not do anything to improve the situation. The very fact that the Europeans have resorted to all the available tools says that Brussels fears Moscow’s potential gas monopoly in Europe. The countermeasures and their prospects are vague. It is not enough to contain Russia: it is much more important to achieve agreements with those oil and gas producers who have already signed corresponding agreements with the Kremlin.

The West is responding with attempts, not very effective so far, to set up a ring of loyal Central Asian and Caucasian states to put pressure on Moscow. This is being done at the energy transportation, political, and information levels; however, it can be said that, on the whole, the West is losing the

¹ See: V. Semenduev, *Energeticheskaja geopolitika Rossii v kontekste formirovanija novogo miroporiadka*, RAGS Publishers, Moscow, 2006, p. 8.

diplomatic battle for resources. It is engrossed in its own interests; this is too obvious to bring dividends in a mutually dependent world. Everything that is said in the European Union and the U.S. and everything that is registered in their energy-related documents focus on the interests of the West and its energy security. The battle is lost before it starts: the energy producers are expected to be concerned about the interests of the Western states and accept their conditions.

This obviously infringes on the rights and interests of the energy producers (the Central Asian countries in particular) and has tipped the balance of forces on the Central Asian energy market.

The noticeable shifts on the Central Asian energy market testify that Russia has reconfirmed its position in the region by offering much better conditions and opening up much more tempting prospects than the EU and the U.S. What can the West do? So far it has either failed to grasp the meaning of the processes underway in the region or deliberately refused to accept the situation. The post-Soviet period is drawing to an end, which means that the Central Asian countries will follow their own roads (each at its own level). To become a strong and independent actor, Europe should devise a new Central Asian strategy; it needs a new format for its dialog and new innovational economic projects.

The approaches that worked in the 1990s are no longer applicable—the local countries need an equal dialog and equal economic cooperation. It looks as if Europe is still a “player of secondary importance” in the Western community; this is true of all areas: world politics and the world security agenda, as well as Europe’s own energy security. Moscow has assumed a fairly tough stance on all energy-related issues: this is the right move for a sovereign state looking after its national interests, development, and national security. Concessions and solidarity should not be limited to energy supplies—these principles should be extended to all other areas.

It seems that the West should forget about its geopolitical euphoria of the 1990s aroused by the victory in the Cold War. The globalized world demands rationality, pragmatic approaches, and fairness in economic relations. Today, all the markets have grown highly competitive; there are increasingly energy-intensive markets outside Europe (China, Japan, India, and Asia as a whole). The Western expert and political communities are paying a lot of attention to the Russian Federation as the key factor in Europe’s energy security.

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Stormy discussions about potential gas pipelines have been raging for some time now. This is probably explained by the growing share of natural gas in energy consumption and its much larger (as compared to oil) reserves. Gas is much kinder to the environment than oil.² The Russian Federation and the European Union supported by the United States are now locked in a diplomatic (read “gas”) battle in Central Asia and the Caspian area. 2007 marked a turning point in this confrontation.

The May 2007 energy summit attended by Kazakhstan, Russia, and Turkmenistan fortified Russia’s position as the main transit corridor for the Central Asian hydrocarbons moved to Europe; the presidents agreed on the long-term prospects of their cooperation in developing the region’s gas transportation capacities. The initialed document, which President of Uzbekistan Karimov signed the day earlier, confirmed the four leaders shared desire to ensure sustainable transportation of the increasing volumes of natural gas across Turkmenistan, Uzbekistan, Kazakhstan, and Russia. They discussed the possibility of modernizing the Caspian gas pipeline, which carries about 4.2 billion cu m a year, to move twice as much gas. The new Caspian gas pipeline and the modernized stretch-

² See: N. Baykov, G. Bezmel’nitsyna, R. Grinkevich, “Perspektivy razvitiya mirovoy energetiki do 2030 g.,” *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, No. 5, May 2007, p. 19.

es of the Central Asia-Center pipeline system in Uzbekistan and Kazakhstan will make it possible to move at least 80 billion cu m of gas every year within the contract concluded until the year 2028. The project's practical stage is expected to start in the first half of 2008.³

Moscow is obviously satisfied with the results: the nature of discussions and the interest displayed by the sides were even greater than expected. The three presidents discussed in detail not only energy issues, but also the problem of the transportation infrastructure, the Caspian's status, and, most important, humanitarian cooperation. This suggests that the meetings held among Nursultan Nazarbaev, Vladimir Putin, and Gurbanguly Berdymukhammedov will mark a new stage in cooperation with Turkmenistan in the tripartite format.

Russia, which wanted a stronger position in its energy dialog with the EU, achieved its aim. The new pipeline along the Caspian shore, which will move Turkmenian gas across Kazakhstan and Russia to Europe, will add weight to Russia as the main supplier of energy resources to Europe. The West, which hoped to acquire oil and gas sources outside the Middle East and to detach the Caspian states from Russia, was dealt a heavy diplomatic blow. As could be expected, it responded in a negative way to the news from the Caspian shores.

Moscow had to retreat on certain points: it increased the transit of Kazakh oil from the Tengiz oilfields to Novorossiisk. Previously Russia refused to do this to avoid competition between the Russian and Kazakh oil moved across the overloaded Bosphorus to the Western markets. This position forced the pipeline consortium to turn to the alternative offered by the Baku-Tbilisi-Ceyhan pipeline that bypasses the Russian Federation. Vladimir Putin agreed to let Kazakhstan use the Russia-controlled 280 km-long stretch of the pipeline that will connect Burgas in Bulgaria with Alexandroupolis in northern Greece.

Why did the Central Asian republics opt for the Russian (the Caspian pipeline) and not the Western alternative that bypassed Russia? The presidents of Kazakhstan and Turkmenistan explained their decision by purely pragmatic economic considerations: the gas prices the Russian Federation was prepared to pay. Today, Moscow pays \$100 per 1 thousand cu m to Turkmenistan and \$140-150 to Kazakhstan. Gazprom sells gas at a price of \$250 per 1 thousand cu m, which gives it a good margin despite transportation costs.⁴

Brussels is convinced that it will be much cheaper to move Central Asian gas across the Caspian. The European politicians disagree with Moscow, which regards the Trans-Caspian pipeline as a purely political project designed not so much for diversifying energy supplies to Europe as for diminishing the role of Gazprom in Central Asia and Europe.

We all know that the idea of the Trans-Caspian pipeline (TCP) born in the United States in 1996 was repeatedly doubted and rejected. After launching the Baku-Tbilisi-Ceyhan oil pipeline, the United States started lobbying a gas pipeline in the same direction. Early in February 2007, Assistant U.S. State Secretary Daniel Sullivan, one of the most ardent supporters of the TCP project, arrived in Kazakhstan and Azerbaijan to promote a project equally advantageous for Kazakhstan and Azerbaijan, as well as for Washington's "European allies."⁵ Moscow is sensitive about the very possibility of numerous actors crowding into the Caspian area; it did everything to diminish the possibilities of the BTC during its construction and of other projects at the discussion stage.

According to Washington, the stretch of the gas pipeline to be built in 2008 should go from Kazakhstan to Turkmenistan and further on to Azerbaijan to join the Baku-Tbilisi-Erzurum gas pipeline. In this way, Central Asian fuel was expected to reach Nabucco, a pipeline to be completed by 2010. In this way, Europe, leery of its dependence on Gazprom, which is steadily increasing its in-

³ See: A. Skorniakova, P. Orekhin, "Kaspiysky blitzkrieg," *Profil*, No. 19 (527), 21 May, 2007.

⁴ *Ibidem*.

⁵ K. Konyrova, "Marshruty, kotorye my vybiraem," *Ekspres K*, 13 February, 2007.

volvement in supplying energy to the Old World, should have received gas that bypassed Russia and its giant company.⁶

In the fall of 2007, the European Union offered new reasons in favor of its gas project. Within the framework of the diversification strategy, it studied the future pipeline's economic viability and discovered that transportation along it would be cheaper than along the Central Asian-Center pipeline. This was a logical continuation of the process launched in August 2007 when Washington moved to the practical stage. The U.S. State Department allocated money for feasibility studies of the stretch of the future pipeline between Turkmenistan and Azerbaijan. A grant of \$1.7 million was initiated in Baku. Assistant U.S. Deputy State Secretary D. Sullivan, who attended the ceremony, said that the money should pay for two feasibility studies: of the TCP that would move Central Asian gas to Europe and of the pipeline laid on the Caspian seabed to join the Kazakh oilfields and the BTC pipeline.

In 2007, Deputy Assistant Secretary of State for South and Central Asian Affairs Evan A. Feigenbaum stated that his country was involved in feasibility studies of a gas pipeline laid on the Caspian seabed. He added that America wholeheartedly supported the multifaceted policy of energy deliveries from the Caspian region to the world markets. According to the high-ranking official, this policy was purely "anti-monopolistic" and was not spearheaded against any country.⁷

The very fact that the money came from Washington rather than from Brussels, which is more interested than any other actor in diversifying fuel supplies, caused a lot of justified irritation in Moscow. However, Russian experts voiced their doubts that a pipeline that left Russia in the cold and the possible re-channeling of part of the Kazakh and Turkmenian gas would leave Gazprom's potential intact. They reminded everyone that the Turkmenistan-China pipeline that would cross Kazakhstan would be commissioned in 2009; it would move about 30 billion cu m of Turkmenian gas every year. The same figure was mentioned in connection with the Nabucco pipeline, the commissioning of which has been postponed until 2011.⁸

In August 2007, President of Turkmenistan Berdymukhammedov assured Brussels that his country would support the multifaceted option of transportation routes. This sounded like confirmation that his country would send its gas to the TCP.

Kazakhstan, in turn, remained devoted to its national economic interests rather than to political considerations, even though it is commonly known that it always prefers diversification of energy corridors. So far, it is demonstrating a lot of tact by refraining from unambiguous support of the TCP: it refers to the need to discuss the project with other countries. It looks as if Turkmenistan, its assurances notwithstanding, will have to honor its previous obligations and consult its neighbors and the key customers. Moscow and Tehran, dead set against the project, will use the Caspian's still vague status as a pretext.

In late September 2007, Brussels began another offensive designed to trim Russia's role on the energy market. The European Commission submitted a packet of five legislative acts related to the EU gas and electric energy market. Brussels suggests that the gas production and transportation functions of the European companies should be separated. This will affect some of the French and German energy giants. The new acts apply to the energy and gas suppliers outside the EU (Gazprom of Russia is one of them). The network companies with pipeline and power transmission line assets should be either sold or transferred to independent managers while remaining the concerns' property. A special monitoring commission should be set up. The authors were convinced that this would deprive the national companies of their control over the energy and gas transportation routes. These amendments are expected to boost competition on the corresponding markets and protect the customers against arbitrary market prices.⁹

⁶ See: I. Vorotnoy, "Trankaspiyskiy gazoprovod: politika ili ekonomika?" *Izvestia*, 21 September, 2007.

⁷ See: K. Konyrova, op. cit.

⁸ Ibidem.

⁹ See: A. Kliuchkin, "Gazovaia oborona," *Izvestia*, 24 September, 2007.

The amendments are not limited to economic considerations: they impose the same limitations on the companies of third countries. To achieve Brussels' permission to buy transportation networks in the EU, any company should operate in its country according to European rules. A deal will not be closed unless the potential investor's state signs a special intergovernmental agreement with the EU. The European bureaucrats are not bothering to conceal the fact that the new rules are spearheaded against Gazprom, which has recently revealed its intention to become the main gas supplier to Europe by buying European assets. President of the European Commission José Manuel Barroso has stated that the EU members might be "open but not naïve" when it comes to dealing with foreign investors and that the recent amendments were intended "to protect our market's open nature." The fear of Gazprom split Europe: on the one hand, there are large companies investing in joint projects because they need Russian energy resources; while on the other, there are politicians exploiting "The Russians are Coming" rhetoric to promote their interests.¹⁰

* * *

Oil prices are fluctuating mainly because of the current demand and supply imbalances; the amount of strategic and commercial reserves of "black gravy;" and the profiteering of middlemen, oil companies engaged in bear and bull operations in the interests of the oil-importing countries.¹¹ In the summer of 2007, the International Energy Agency confirmed that the mature ("brownfield") oil fields in Mexico and the North Sea are becoming rapidly depleted, while new projects are few and far between. In the next five years, the world will use 2.2 percent more oil every year, while the oil supplies outside OPEC will grow by merely 1 percent a year.¹² This means that Caspian and Central Asian oil will be badly needed and that geopolitical considerations will interfere with its transportation. It is commonly believed that the pipelines on post-Soviet territory are of political rather than economic importance, which makes them more expensive. Indeed, the route is first laid on the political map, and then it is for the project operators to make it profitable.

The trade and economic wars between Russia and the West are adding problems to the Caspian oil transportation issue. In 2007, the sides could not start negotiations for several reasons: Russia's ban on meat imports from Poland; the de facto trade blockade of Estonia in response to the Estonian authorities' resolution to move the Soviet war memorial; and the ten-month gap of raw material deliveries to the oil refinery in Lithuania sold to a Polish rather than Russian firm. In principle, the problems could have been easily resolved had the political undertones been less obvious. Brussels is still trying, without much success, to convince the Russian veterinary service that the Polish meat is absolutely safe. Estonia probably acted rashly, but trade should not be tied to the moved monument. The oil embargo has exceeded the time potentially needed to repair everything that needed and did not need repairs on the oil pipeline through which oil reached the refinery.

The Russia-EU Samara energy summit, which began cracking under the heavy burden of unresolved problems from the very start and followed President Putin's successful Central Asian tour, convinced the Europeans that Russia was pursuing the "divide and rule" policy in its relations with the EU. No sooner did the European Union try to discuss the new partnership agreement than new obstacles appeared. Russia insists that the new EU members still harbor "childhood grudges," while the European experts are convinced that Moscow's disdain of the former vassals is adding fuel to the fire. The obstacles are obviously deeper rooted than was believed earlier.¹³

¹⁰ See: A. Reut, "Evropa nadela 'protivoGazprom'," *Izvestia*, 20 September, 2007.

¹¹ See: N. Baykov, G. Bezmel'nitsyna, R. Grinkevich, op. cit., p. 25.

¹² See: Mir zhdet energeticheskoy krizis, 10 July, 2007, available at [www.profile.ru].

¹³ See: Energeticheskie igry: pobediteli i pobezhennyye, 18 May, 2007, available at [http://www.iamik.ru/?op=full&what=content&ident=34585].

In 2007, the repeated Central Asian tours of President Putin produced contradictory results. The local leaders assured their Russian colleague of their friendship; and they confirmed their willingness to sell gas to Gazprom and move the bulk of their oil across Russia. President Nazarbaev put it as follows: "Kazakhstan is absolutely devoted to the idea that the larger part (if not all) of its oil should be moved across Russia. We have said this before." Astana and Ashghabad want Russia to give them new transportation capacities. "I am convinced that Russia can offer us wider transportation possibilities for both oil and gas. In this case, we, and probably our neighbors, will stop looking for alternatives," said President Nazarbaev. He referred to the Caspian Pipeline Consortium (CPC) that pumps Kazakh oil to Novorossiisk. The prospects are not quite clear, but in any case Kazakhstan is prepared to exchange guaranteed supplies of its oil to the Russia-initiated Burgas-Alexandroupolis project for greater access to the CPC.¹⁴

Earlier, Russia tied the possibility of increasing the CPC's carrying capacity from 30 million to 67 million tons a year with the Burgas-Alexandroupolis oil pipeline designed to reduce the pressure on the Bosphorus and Dardanelles. A recent agreement between Bulgaria and Russia on the construction of the pipelines is being implemented. It will require much more oil than the amount that reaches the Black Sea ports today: an aim that calls for administrative methods. The Russian state and private companies should be convinced to send more oil to the south, and Kazakhstan and Chevron, the shareholder of Tengizchevroil, will need no persuasion to use the pipeline.¹⁵

In the next few years Kazakhstan will step up oil production and will need alternative transportation routes, some of them are already available.

I have in mind, first and foremost, the BTC oil pipeline commissioned in 2006 to decrease the Caspian oil producers' dependence on Russia's transit infrastructure. Russian officials spared no words to describe the line as economically ineffective; meanwhile oil prices have climbed, and Russia, in turn, alienated Kazakhstan by making it feel its dependence on the Russian pipeline network, thus pushing it toward the BTC. As a result, the BTC may become profitable; the Krakow "anti-Russian summit" came forward with the Odessa-Brody-Plock-Gdansk project. To achieve the desired results and receive Kazakh oil, a route must still be laid that will bring Kazakh oil to Baku in the first case and increase the carrying capacity of the Baku-Supsa oil pipeline to bring Kazakh oil to the Black Sea ports bypassing Russia in the second. Government experts are convinced that the pipeline between Western Kazakhstan and Western China is the second most important project. By the mid-2000s, China will need over 70 million tons of oil a year. Every year Beijing increases its oil imports to feed its developing economy; it is commonly believed that by 2010 it will buy about 130 million tons of oil every year.¹⁶

The areas to the south of the Caspian are the fourth, potentially profitable, oil export direction, but Astana is demonstrating justified caution when talking about Iranian transit. At the same time, the Kazakh expert community agrees about its economic and geopolitical prospects. Astana and Tehran have already talked about increasing Kazakh oil exports via Iran. Aware of Kazakhstan's growing hydrocarbon potentials, Iran agreed to let Kazakhstan move up to 120 thousand barrels of oil a day across its territory. The Iranian side is convinced that as soon as Kazakhstan launches commercial oil production on the Caspian shelf its oil companies will take the Iranian transit potential into account.

The pipelines are costly ventures, but no one doubts that they will be put into operation. Analysts believe that as soon as the pipeline network is ready, companies will begin investing in the corresponding region, while remissions will partly compensate for their transportation costs. The same is true for nearly all the oil pipeline projects: they are not cheap, but they are too important geopolitically to be ignored. All the large powers are using them to promote their political interests.¹⁷

¹⁴ See: P. Orekhin, "Nefti slozhnye puti," *Profil*, No. 18 (526), 14 May, 2007.

¹⁵ See: A. Skorniakova, P. Orekhin, op. cit.

¹⁶ See: M. Kotlov, "Kitaysko-amerikanskies otnosheniya v kontekste strategii energeticheskoy bezopasnosti KNR," *SShA-Kanada. Ekonomika, politika, kul'tura*, No. 7, 2007, p. 67.

¹⁷ See: A. Skorniakova, "Zolotye nefteprovody," *Profil*, No. 8 (517), 5 March, 2007.

Comparative Cost of the Pipeline Projects

Pipeline	Capacity	Length	Cost	Cost per 1 km	Country
East Siberia-Pacific Ocean (1st phase)	30 million tons	2,757 km	\$11 billion	\$3.99 million	Russia
Khariaga-Indiga	12 million tons	430 km	\$2.2 billion	\$5.12 million	Russia
Burgas-Alexandroupolis	35 million tons	285 km	\$900 million	\$3.16 million	Bulgaria-Greece
Unecha-Primorsk (BPS-2)	50 million tons	945 km	\$2.5 billion	\$2.65 million	Russia
BTC	25 million tons	1,767 km	\$4 billion	\$2.26 million	Azerbaijan-Georgia-Turkey
CPC	28 million tons	1,500 km	\$2.236 billion	\$1.49 million	Kazakhstan-Russia
Atasu-Alashankou	10 million tons	962 km	\$806 million	\$0.84 million	Kazakhstan-China

Sources: Transneft, CPC, Fitch Ratings, Argus, FSU Oil&Gas Monitor (see: A. Skorniakova, op. cit.).

Moscow will not only defend its position where the pipeline projects and Russian territory (and ports) are concerned—it will become more actively involved in the Caspian energy plans, which will bring more dividends in the form of the strategically sustainable relations with the region's states. Its economic involvement in the Caspian projects guarantees the region's stability and security. Still, Russia should not rest on the laurels of its recent victories in the "pipeline battles." It should devise a more substantiated strategy: by acting rashly, Moscow pushes its partners toward other alternatives. They are here to be used: the commissioned BTC, the planned Odessa-Brody-Plock-Gdansk project put forward by the "anti-Russian summit" in Krakow, and the Chinese pipeline (Atasu-Alashankou). Technical obstacles aside, they are being implemented outside Russia. This means that Moscow will not be able to repeat its gas-related triumph.¹⁸

The Russian officials and experts are jubilant: at first glance, the signed agreements gave the Kremlin complete control over the Central Asian energy resources. The diplomatic victories, however, call for a lot of thinking if Russia wants to become an energy power.

To clarify the point, let's take a look at what is going on at the Kashagan fields in Kazakhstan. The Mediterranean-oriented project is not only the central one for the republic for the next 5-10 years or even the next 30 or 40 years. It is equally important for the Southern Caucasus, Turkey, Europe, and the United States, as well as for Russia and China, which want to stay outside the BTC system and

¹⁸ See: A. Skorniakova, P. Orekhin, op. cit.

the Kashagan Consortium. On the whole, Kashagan and BTC can be described as the core of Caspian geopolitics for many years to come.

It was expected that commercial production would begin in 2005, yet the plans and assessments changed several times until, in 2007, the deadline was revised once more. This triggered contradictions between the Kazakh side and Eni of Italy, which suggested that the deadline be pushed back to late 2010. The Italian company doubled the initial cost of the first stage to \$19 billion. The government of Kazakhstan was especially irritated by the new appraised value of the project with a life span of 40 years: it was raised from \$57 to \$136 billion.¹⁹ When commenting on the readjusted costs of the one of the world's largest oilfields, Prime-Minister of Kazakhstan K. Masimov said that his government could dismiss EniSpA as the project's operator. Oil industry observers and local insiders agree that the Kazakh side is unlikely to do this—the project is not that easy to operate—but Astana might insist on a larger share of the profits at an earlier date.

There is the opinion that Kazakhstan came forward with this comment at a time when resource-related nationalism was mounting in all the oil-rich countries. The growing resistance is partly explained by the dissatisfaction of the oil producers with the early agreements (signed in the 1990s) when oil prices were low and the states had to agree to hardly profitable contracts with oil companies and investors.²⁰ I interpret this as a sign that all the foreign forces involved should bear in mind that the situation has changed and that the interests of oil exporters should be respected. Oil-related policy should take reality into account and display a lot of tact.

* * *

It is becoming increasingly clear that the post-bipolar world has not yet acquired international political mechanisms; there is neither a stable and universal legal system nor ensured international security. The still growing community of states (there are over 200 of them) is too varied and too unstable to cooperate. In fact, what can be described as a geopolitical revolution caused "tectonic" shifts that added to the worldwide political, economic, social, cultural, and other chaotic trends and worsened all the various risks.²¹

Today, Russia has found itself in the very center of geopolitical intrigues, the aim of which is to cut back its monopoly influence on energy fuel transportation in the region. Seen from the West, Moscow looks like a "transport monopolist" and a potential "energy dictator," which threatens the West's energy interests, and at the same time, it looks like a strategic energy partner. Europe berates and criticizes Russia, it is trying to scare it and is scared itself. Brussels knows that the West will not last long without Russia's gas and that Central Asia's resources will remain unattainable without Russia's consent. By maintaining constructive relations with the Central Asian countries based on their common history and cultural ties, Russia is still an important geopolitical power. In 2007 the Central Asian countries confirmed this.

In the current far from simple situation the Caspian and Central Asian countries are facing the very difficult task of achieving a consensus among themselves on the fuel transportation issue. In the presence of strategic mineral resources, this will test the local countries' independence.

¹⁹ [<http://www.kub.kz/article.php?sid=19346>]

²⁰ See: "Kazakhstan uzhestochaet pozitsii po nefianomu proektu," *The Wall Street Journal*, 8 August, 2007, available at [www.inosmi.ru] (see also: "Kazakhstan Presses Eni Group for Better Terms on Oil Project," *The Wall Street Journal*, 31 July, 2007).

²¹ See: K. Voronov, "Global'naia intersistema: evolutsia, struktura, perspektivy," *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 1, 2007, p. 18.

The resource-rich countries should leave their old contradictions behind and avoid new ideological and political difficulties. Their relative independence rests on comparatively widespread and ramified (domestic and export) systems of pipelines and other transportation routes. Deprived of access to the world sea communications, the local states should stick to the strategy of maximum diversification of their international transport and communication lines. Their integration in the transport and communication sphere, even if it fails to liberate them completely from external influence, will keep in check the actors ready to put pressure on the Central Asian countries.

THE GAS PIPELINES: A GAME OF CASPIAN PATIENCE

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We all know that the European gas reserves in the North Sea are rapidly depleting. This means that the leading countries of Western Europe and some of the East European countries will have to look for fuel elsewhere. Scared by the Russian-Ukrainian “gas squabbles” they are actively seeking alternative sources. Poland went as far as suggesting that the EU should create an energy pact (patterned on NATO) under which all members would pledge to help those in their ranks that need urgent support. So far, the idea has not gained support.

Today, new pipelines from the Caspian area, the Middle East, and North Africa might be built; new marine terminals for tankers carrying liquefied gas from the Persian Gulf are also needed. The commissioned North African gas fields cannot cover Europe’s gas needs. The Middle East cannot be described as a stable gas supplier; it also prefers to sell its liquefied gas to Southeast Asia. In this context, the Caspian looks like the best possible option.

Practically all the projects look at Central Asia and Azerbaijan as the main gas suppliers; so

far little has been said about the projects’ possible economic efficiency. It is still much more important to attract attention to one’s own country, to raise a “political wave,” and to scare away potential rivals. The Europeans are working on the Nabucco project (a gas pipeline that will go from the southern part of the Caspian, via Turkey to Southeast Europe. It will end in Baumgarten in Austria). The plan is far from complete: investments, gas sources, and transportation tariffs have not been discussed, no national companies have been set up for engaging in construction; preliminary works have not yet begun.

The “gas projects on paper” seem to pursue purely strategic aims. The West and Russia are fully aware that until the Caspian’s legal status has been fixed all talks, let alone agreements, on extracting anything on the Caspian shelf or laying pipelines on its bed will remain futile deliberations measured in mega- and giga-bites of political wishful thinking rather than in cubic meters and dollars. This and the fact that the local proven gas reserves will not be enough to fill all the pipelines are successfully ignored.

Oldie but Goodie

In November 1999, the presidents of Turkmenistan, Turkey, Azerbaijan, and Georgia signed an agreement on a Trans-Caspian gas pipeline laid on the seabed at a depth of up to 1 km. It is expected to transport gas from Kazakhstan, Turkmenistan, and Azerbaijan to Turkey and further on to the European markets. They went as far as setting up the PSG Consortium of General Electric, Bechtel National, and Shell. Commissioning of the pipeline that was to carry 16 billion cu m of gas to Turkey and 14 billion cu m to Europe annually was planned for 2002. The sides, however, failed to agree on the construction conditions and the money sources. In 2000, the works were discontinued.

The steadily rising fuel prices and completion of the South Caucasus Pipeline (SCP) that moves gas from the Azeri gas condensate Shah Deniz field to Turkey revived the Trans-Caspian project. The European Union also displayed an interest in the abandoned project. The new gas pipeline will connect Tengiz (Kazakhstan) and Europe via Turkmenbashi (Turkmenistan), Baku (Azerbaijan), Tbilisi (Georgia), Erzurum (Turkey), Bulgaria, Rumania, Hungary, and Austria. It will be over 3 thousand km long with an initial annual carrying capacity of 30 billion cu m. Its cost is assessed at about \$6 billion, but from experience we know that the real cost is normally 40 to 60 percent higher than the experts' estimates. It seems that earlier neither the U.S. nor Europe believed that the money would be well spent; they readjusted their ideas under pressure of the skyrocketing fuel prices and Moscow's rising political ambitions.

In 2006, Turkey, Turkmenistan, and Azerbaijan revived the project, this time supported by Washington and Brussels. U.S. State Secretary Condoleezza Rice discussed the strategically important project with her Turkish and Greek colleagues. During his visit to Kazakhstan, Dick Cheney also touched upon the issue. The project cannot be commissioned before 2011. Late in June 2006 European Commissioner for Energy Andris Piebalgs, the project's main ideologist, and ministers of the five transit countries signed the corresponding documents in Brussels.

Late in 2006, during a visit to Astana,¹ Andris Piebalgs declared: "The Trans-Caspian pipeline will become the fourth corridor through which gas will reach Europe. It will bring more gas and we believe that Kazakhstan's involvement in the project is important." Today Astana looks much less interested than before. In the spring of 2007, President Nazarbaev, in an interview to *El Pais*, voiced his doubts about the project's future. Later, Foreign Minister of Kazakhstan Marat Tajin repeated this opinion.

The doubts are justified: so far there is no clarity about the resources, or the technical, legal, and financial issues. This, and other problems, makes the project a thing of the distant future. American and EU political support cannot make up for the absence of feasibility studies. Indeed, after passing through the Trans-Caspian pipeline and crossing several countries (eight in the case of Germany's participation), gas (from Kazakhstan, for example) will accumulate transit tariffs (the Istanbul Declaration clearly states that the transit countries have an inalienable right to set the amount of transit and fiscal dues) to become forbiddingly expensive.

Astana and Ashghabad are obviously unwilling to become tied to the doubtful Trans-Caspian project: they are paying more attention to gas liquefaction technologies and are busy building up their tanker fleets.

In fact, methane-carrying tankers are better suited to the ecologically vulnerable closed Caspian Sea than an underwater pipeline. So far, Tengizchevroil of Kazakhstan produces about 10 million tons of liquefied gas at the Tengiz fields. Despite the fairly high transportation costs this gas is moved across Russia by rail. Its growing share in world energy consumption² (the current share is about 20 percent)

¹ See: K. Konyrova, "'Pri' vmesto 'Trans'," *KazEnergy*, No. 5, 2007, p. 61.

² According to the IEA report, world production of natural liquefied gas will grow from 240 billion cu m in 2005 to 470-600 billion cu m in 2015.

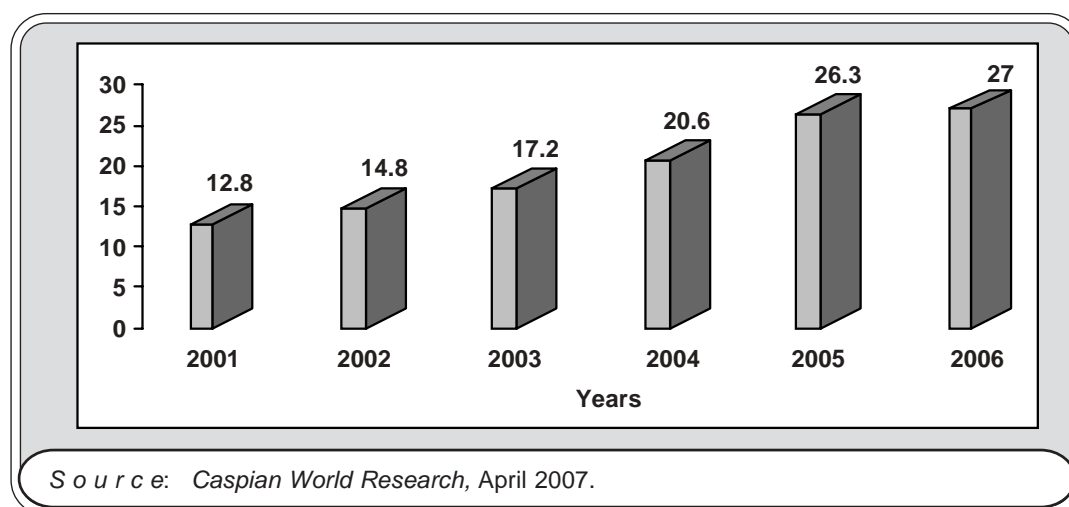
might tempt other gas producers in Kazakhstan. We cannot exclude the possibility that in the future it will become profitable to deliver liquefied gas to the western Caspian shore, and, some time later, to Iran. This means that so far the Trans-Caspian project remains a political rather than economically justified venture.

In an effort to draw the Caspian countries into its projects, the EU is promising economic aid, training, and even “ensuring safe production and safe delivery” with NATO cooperation. The world pipeline projects make sense only if there is enough gas or oil to move along them. In our case, this is doubtful. Let’s have a look at the “gas scene” of the near future (I have in mind the gas reserves of Kazakhstan, Turkmenistan, and Azerbaijan).

Gas Arithmetic

Today,³ according to the figures endorsed by the State Commission for Mineral Reserves of the Republic of Kazakhstan, the recoverable gas volumes (together with the new shelf fields) are over 3 trillion cu m, while the potential resources are estimated at 6-8 trillion cu m. In 2006, overall output was 27 billion cu m (14.8 billion cu m of tank gas). In the medium term, this volume can be doubled. It is expected that by 2015 the production of tank gas will reach the figure of 36 billion cu m and 40 billion cu m by 2020.⁴

**Dynamics of Overall Gas Production in Kazakhstan
(billion cu m)**



Kazakhstan’s gas industry is based on oil and oil-gas fields, which means that the republic will increase its gas production by building up the volumes of associated and oil-dissolved gas by developing its offshore fields. Kashagan could have supplied considerable volumes of gas, but its development has once more, and probably not for the last time, postponed. Some of Kazakhstan’s gas will go to China, some will be used inside the country, the rest will be exported by the Kazrosgaz JV, which means that there will be no gas for the Trans-Caspian line.

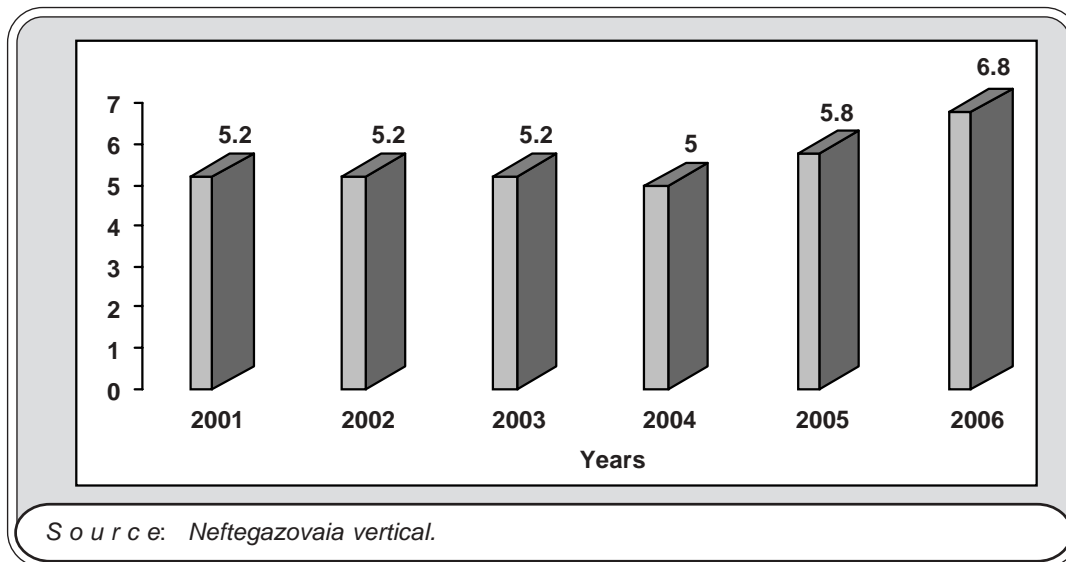
³ See: *Neftegazovaya vertical*, No. 17, 2007, p. 110.

⁴ *Ibid.*, p. 122.

In June 2007, at the opening ceremony of the 14th Caspian Gas&Oil Exhibition, President of Azerbaijan Ilham Aliev announced that Shah Denis, Azerbaijan's main gas field developed by the AIOC international consortium, contained 1.2 trillion cu m of gas. The associated petroleum gas of the Azeri-Chirag-Gunashli fields, as well as the gas of the fields developed by the State Oil Company of Azerbaijan Republic (SOCAR), brings the country's gas potential up to no more than 1.7 trillion cu m (ENI of Italy cites a much more modest figure of about 1.4 trillion cu m).

According to Minister of Industry and Energy Natic Aliev,⁵ at Stage-2 of the Shah Denis project Azerbaijan will send 12 billion cu m of gas to Europe through Nabucco. Stage-2 will be commissioned in 2013. According to the SOCAR forecasts, in 2015 the gas field will produce 20 billion cu m maximum (in 2006, Azerbaijan produced 6.8 billion cu m). Today, at Stage-1 gas is exported to Georgia and Turkey; and Azerbaijan is covering its domestic needs with gas from the same field. This means that even in 8 to 10 years the republic, the most active supporter of the Trans-Caspian project, will be able to cover barely half of the planned capacity.

Dynamics of Gas Production in Azerbaijan
(billion cu m)

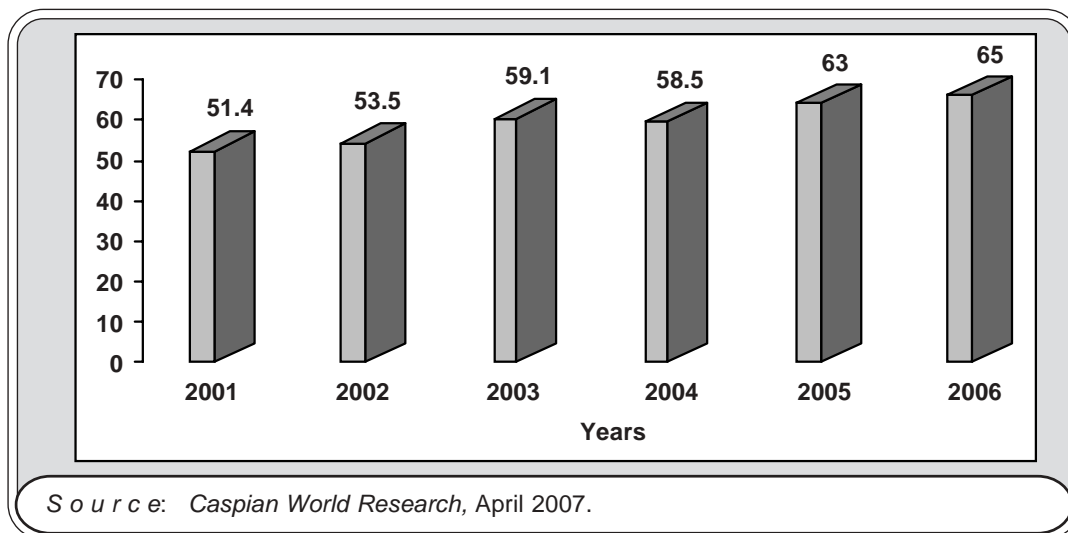


There is the opinion that Turkmenistan comes third or fourth in the world in terms of gas reserves. Today it produces 65 billion cu m, but the republic's leaders are convinced that by 2030 their country will produce 250 billion cu m of gas. So far, the real figures testify that growth is slow, while the real volumes of gas produced are trailing behind the planned. In 2006, production increased by 1 percent. The new president (like the previous one, for that matter) dismissed all doubts about the possibility of his country meeting its gas-related obligations. In May 2007, however, Turkmenistan signed a \$1.5 billion contract with the CNPC of China for natural gas prospecting⁶ (probably to fulfill the already signed contracts). Newly discovered gas reserves will take many years to be developed to the commercial level. The same can be said about the probable gas reserves on the Turkmenian shelf.

⁵ See: [<http://www.ngv.ru/shownews.aspx?newsID=98437>].

⁶ In twelve years the CNPC should drill 12 exploratory wells at the Iuzhny Iolotan field (on the right bank of the Amu Darya).

Dynamics of Gas Production in Turkmenistan
(billion cu m)



Simple calculations show that to fill all the pipelines, Turkmenistan will need at least 170 billion cu m every year; this means that it will sell more gas to Europe than Russia. Meanwhile, the republic has to send 30 billion cu m, nearly half of the exported volume, to China.

In the absence of reliable figures about the proven gas reserves, we cannot expect the country to maintain its gas exports on a stable level for a long time. It is possible that Turkmenistan's obligations to China will deprive the Trans-Caspian project of all hope and will cast doubt on the future of this gas pipeline.

The Caspian Project

The idea is not a new one: back in 2003 the gas pipeline was to begin at the Turkmenian gas fields and run along the Kazakh stretch of the eastern Caspian shore to cross Russia and reach Europe was estimated at \$1 billion. Gazprom favored it as an alternative to increasing the carrying capacities of and reconstructing the Central Asia-Center (CAC) pipeline that crossed Uzbekistan and Kazakhstan. The project failed because of Gazprom's inadequate price of \$25-27 per 1 thousand cu m.

Speaking at the 62nd Session of the U.N. General Assembly, President of Turkmenistan Gurbanguly Berdymukhammedov announced that the Intergovernmental Agreement on Cooperation among the three countries in building the Caspian pipeline (in conformity with the Joint Declaration of the Presidents of Kazakhstan, Russia, and Turkmenistan of May 2007) is also being postponed because of price disagreements.

The Turkmenian side, which wants to push the disbursing gas prices up 1.5-fold in 2008 (China is paying no more than \$90 per 1 thousand cu m of Turkmenian gas),⁷ argues that world fuel prices are climbing and that Gazprom is resolved to raise the disbursing prices for the CIS coun-

⁷ See: "Turkmenia otdala nedra Kitaiu," *Oil&Gas of Kazakhstan*, No. 4-5, 2007, p. 177.

tries. In view of the already signed agreement between Gazprom and Turkmenistan on gas deliveries in 2006-2009 (162 billion cu m at the fixed price of \$100 per 1 thousand cu m) the position of Turkmenistan's new president looks strange to say the least. It may even damage Ashghabad's business reputation: its intention to upset the international contract places it in the category of unreliable suppliers.

When modernized, the functioning Caspian gas pipeline (that currently transports about 4 billion cu m a year), the new Caspian pipeline, and the reconstructed CAC system will be united into a system with a capacity of over 80 billion cu m a year (the amount bought under the contract that ends in 2028).

It seems that Russia is not the only winner—its Central Asian partners will profit too. The project means that the so-called "Gas OPEC" has become a fact (at first it was devised as Russia + Central Asia), which will be able to set its own gas prices for Europe.

Foggy Turkmenistan

The European Union and the United States are pushing, through diplomatic channels, the idea of gas pipelines from Turkmenistan to Azerbaijan, Turkey, and further on to Europe, even though the question of the country's real gas reserves remains unanswered. Here I have in mind the proven exportable amounts confirmed by independent auditing. The auditing information of May 2005 gathered by American DeGolyer and MacNaughton and Gaffney, Cline & Associates of the U.K., has not yet been published.

This means that the Nabucco project, as well as the pipelines to Iran and across the Caspian, may be left idling. The largest Western companies will never pour billions of dollars into the project with no confirmed loading.

The new Turkmenian leader, however, is basking in the attention of Russia, Kazakhstan, the U.S., and Azerbaijan: during the first nine months of 2007, eighteen American delegations visited the republic (15 of them were sent by U.S. executive structures and three by Congress)⁸ under the pretext of establishing bilateral relations. Washington, however, has an eye on the fuel and energy sector; it is seeking Ashghabad's agreement to export the bulk of its gas through the planned Trans-Caspian pipeline.

Official meetings with the president of Turkmenistan have acquired their own scenarios: the guests describe their general interest in the regional security sphere, then they present investment projects and potential joint actions designed to increase the natural gas deliveries to the world markets. Turkmenistan should step up its involvement in the region—this is vitally important for it. Its gas riches, confirmed by international auditing or not, are pulling the Russians, Americans, and Chinese to Ashghabad.

President Berdymukhammedov relies on personal diplomacy to open new avenues of cooperation. This is vitally important for his country's future. While opening the doors to the foreign oil and gas business, however, and talking about the long-term intention to diversify gas exports, he always keeps his country's interests in mind.

The Turkmenian president, who never fails to say that the export routes should be varied, invariably adds that he is prepared to move gas in any direction ... within his own territory. In this way he

⁸ See: *Ekspert Kazakhstan*, No. 26, 2007, p. 46.

is tempting China, Russia, Europe, and America with the chance of acquiring a share of Turkmenian fuel. In August 2007, the United States, having discussed the idea of the Trans-Caspian gas pipeline with Ashghabad, hastened to allocate \$1.7 million of an "energy grant" to Azerbaijan to start feasibility studies of two new trans-Caspian pipelines. America obviously wants to spur on the project and attract investments. The new lines will be used to move oil and natural gas from Kazakhstan, Uzbekistan, and Turkmenistan to Europe via Azerbaijan and Georgia.

Having confirmed his desire to cooperate with Kazakhstan in the Caspian project (along the eastern Caspian coast and across Russia to Europe), the Turkmenian president displayed an interest in the Trans-Caspian project; his country is also prepared to lay gas pipelines to Iran and China.

Kazakhstan's Own Road

Astana's multi-vector policy raises numerous questions. The frequent meetings with Russian and American representatives have so far failed to shed light on Kazakhstan's choice of "close and priority partner." It remains unclear whether it will cooperate on a priority basis with Russia, America, or a third country.

The recent constitutional amendments invited no comments from the United States: it obviously puts business and its investment positions in Central Asia above politics. Washington expects the Central Asian countries to side with it on the key international issues. It is equally interested in trimming Russia's role in producing and exporting Kazakhstan's energy fuels.

Even though Kazakhstan's gas reserves are much smaller than those of Turkmenistan, the United States will place its stakes on Astana as a more predictable partner and will try to increase gas exports from Kazakhstan to third countries.

Kazakhstan is prepared to become a transit country, a role that Russia has the monopoly on: the gas pipeline from Turkmenistan to China will cross Kazakhstan and Uzbekistan. In this way Astana will come to the world markets bypassing Russia.

Construction of the gas pipeline to China will start in 2008. According to Arman Darbaev, Executive Director of the National Company KazMunayGaz, it will consist of the following stretches: the border with Uzbekistan-Shymkent-Khorgos with an annual carrying capacity of 40 billion cu m; the Beyneu-Bozoy-Samsonovka stretch with an annual carrying capacity of 10 billion cu m will be added later, when its economic efficiency has been confirmed. It is planned to complete the first stretch in 2009."⁹

The far from simple relations between Ashghabad and Tashkent cast doubts on the date of the project's commissioning. Contrary to Chinese expectations it will hardly be ready by 2010. The project, however, might be completed by 2015 if the transit disagreements are settled.

With the "Chinese" oil and gas pipelines in operation, Kazakhstan will become a much more independent fuel exporter to the East. It may even claim the dynamic and still vacant Southeast Asian market. These routes can be used as a foreign policy trump card and will put the diktat of Western companies within certain limits. By the same token, the republic will decrease its dependence on Russia's transit monopoly.

At the same time, experts¹⁰ point out that cooperation with China is unfolding in the interests of the Chinese economy. China's economic advance undermines Kazakhstan's processing and agricul-

⁹ *Novosti KMG*, 2 October, 2007.

¹⁰ See: S. Smirnov, "Kitayskiy drakon na Kaspri," *Caspian World Kazakhstan* 2007, p. 105.

tural sector. In fact, the growing Chinese demand on Kazakhstan's energy fuels is gradually turning the country into a raw material appendage of the Western and Chinese economies. There is the opinion that Kazakhstan and its neighbors can hardly expect Chinese business to come to the non-raw material sectors, such as high technologies. In real life China is interested in the Caspian states as sources of raw materials.

Illegal Chinese migration (according to expert estimates there are hundreds of thousands of illegal Chinese migrants in Kazakhstan) cannot but cause concern. The migrants are mostly engaged in primitive industrial and pre-industrial economic activities; there are no educated and highly skilled people among them able to add to the country's scientific and technological potential. Illegal migration cripples Kazakhstan's economic interests and threatens its political stability.

“Gas OPEC” within the SCO

The Central Asian oil and gas producers need a diversified pipeline network; the market is forcing them to play a simultaneous chess game for an obvious reason: only some the options stand a good chance of being realized. There is the commonly shared opinion in the expert community that the West can hardly win the race with Gazprom and China. According to Prof. Jonathan Stern of the Oxford Institute for Energy Studies, the Trans-Caspian gas pipeline requires three things—gas, markets, and money. The West has none of them.¹¹

The SCO members are also competing, more actively than before, for the region's energy resources; the local countries are tempted by China's growing interest in their hydrocarbon wealth to wrench concessions from Russian and Western companies. In August 2007, in Bishkek, however, the leaders of Russia, China, and four Central Asian SCO members reached an agreement on an “energy club.”

If realized, this idea will make it harder for the West to gain access to the Caspian's Central Asian fuels. Washington and the leading European capitals were concerned: it is not that important what the club will do when it is formed. What is important is its members' firm intention to keep America and Western Europe away. This Russian-Chinese energy cooperation with the Central Asian countries will keep the local energy resources out of Western Europe's reach and will strengthen Russia's position as a transit country.

Everyone knows that the export fuel routes are the best possible instruments of influence in the region, which means that the struggle for the Caspian gas pipelines will become even tougher and that at least one of the projects will not be realized in the near future because of raw material shortage. We can even predict with a great degree of certainty that the Trans-Caspian project will fall victim to the Great Game on the Caspian. It is hard to say how the Caspian game of patience will proceed. One thing is clear: a new situation giving the local countries wider elbow space is gradually emerging on the Caspian shores.

¹¹ See: *Ekspert Kazakhstan*, No. 36, 2007, p. 49.

CHINA AND ENERGY SECURITY IN CENTRAL ASIA

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This paper is divided into three parts: China's energy policy and energy development strategy; Central Asia's significance for China's overseas energy development strategy; and Central Asia's energy security and energy development.

I. Adjustments in China's Energy Policy and Energy Development Strategy

China has now surpassed Japan as the second largest energy consuming country, next only to the United States. In 2006, China imported 145.18 million tons of crude oil, making another record in history.¹ It is expected that by 2010, China could import 180 to 200 million tons of crude oil, over half of its total consumption.² Meanwhile, with the steady rise in energy consumption, environmental pollution as well as energy waste will increase, presenting a host of serious challenges to the government and society.

In the face of such a situation, China has begun to gradually adjust its energy policy and energy development strategy, as reflected in the following five areas:

- (1) Energy production in the western part of the country is being encouraged, while in the eastern part it is becoming stabilized. To ensure adequate domestic production, the old oil (including gas) fields in eastern China, some of which are already peaking out, are now giving way to the emerging fields in the west, with the latter becoming the new focus of energy development. Meanwhile, energy output, such as the gas produced in the west, is being transported to the eastern part of the country as a corresponding measure. Energy development is thus becoming a key component of China's national strategy for "developing the country's west."
- (2) The energy consumption structure is being remodeled. In China's energy mix, the proportion of coal is to decrease from its current level of 65%-69%, while that of oil, gas, hydro-power and nuclear power will increase from their current levels of 20%-25%, 3%, 6% and 1%, respectively. It is expected that by 2020, coal will account for 54%, with oil increasing

¹ See: Website of the General Administration of Customs of the PRC [<http://www.customs.gov.cn>].

² See: *Oriental Morning Post* (Shanghai), 16 February, 2005.

to 27%, gas to 9.8%, and hydro and nuclear power to 9.1%. Of course, new sources of energy will be developed as well, just as clean coal technology will be promoted.

- (3) A national energy reserve system is being built. Strategic energy stockpiling will not only control the national economic losses caused by any sudden break in energy supply, but will also help to stabilize the market when energy prices undergo a sudden hike. Since the turn of the century, China has begun building its strategic energy reserve system.
- (4) Energy saving is becoming one of the top priorities. At the moment, China's energy consumption per GDP dollar is three times higher than the world average, and the economic losses as a result of the low energy utilization rate is as high as \$120 billion a year.³ The Chinese government is taking various measures to change the situation, such as promulgating the Renewable Energy Act, revising the Coal Act, enforcing energy-conservation criteria for buildings, substituting diesel engines in vehicles for gasoline-run engines, popularizing coal-based gas hybridization technology, drawing up energy-saving criteria for newly manufactured vehicles, closing down excessive energy consuming facilities, etc.
- (5) Emphasis is being placed on active energy development overseas. While sticking to the principle of relying mainly on domestic energy resources, China has embarked on the road of developing oil and gas overseas, expecting to diversify its energy import channels. This issue will be specially addressed here.

China currently imports oil and gas from over 30 countries. As evidenced by the import figures of recent years, these countries include in particular Saudi Arabia, Iran, Angola, Russia, Oman, Sudan, Yemen, Indonesia, Australia, Thailand, Malaysia, Congo, Kazakhstan, Venezuela, Libya, etc. In terms of geographic shares, about 60% of the Chinese energy import comes from the Middle East, passing through the highly insecure Malacca Strait. Therefore, a key objective of China's overseas energy development strategy is to ensure the diversification of oil and gas imports and their transportation routes. To achieve this objective, it is necessary to go beyond the mere purchase of energy products by directly engaging in the international markets of energy development and transportation.

Since the 1990s, Chinese enterprises have begun to make their presence known on the international market of energy investment and development. The CNPC, CNOOC, and SINOPEC, as the leading Chinese companies operating in the world energy market, have invested in dozens of major energy projects around the world. On the whole, the overseas operations of Chinese companies are oriented in five directions: the Middle East, Central Asia-Siberia, Indonesia-Australia, Africa, and Latin America. Especially remarkable achievements have been made in projects in Kazakhstan, Sudan, Venezuela, Indonesia, Australia, and Iran.

II. Role of Central Asia in China's Overseas Energy Development Strategy

Central Asia occupies an especially important role in China's overseas energy development strategy. This is primarily because Central Asia has unique geographic advantages among all those areas where Chinese companies make their overseas energy investments. As distinct from the other four directions, Central Asia is a source of energy supply that demands no protection from any ocean navy.

³ See: *Business Week*, 11 April, 2005.

As China is still unable in the near future to build up an ocean navy strong enough to protect its oil shipping lines, this nearby source is obviously of great strategic significance for China's energy security. Indeed, Central Asia even has the potential to open a land transportation route for Chinese energy import from the Middle East. Secondly, the rich energy resources in the region will be able to meet China's energy needs for a long time to come. The Caspian Sea and its continental shelf are known as the third largest area in the world with profound energy reserves waiting for development. Kazakhstan alone has proven oil reserves of 4.6 billion tons. It is expected that its oil production will reach 100 million tons in 2010, a large part of which is certainly to be exported. The natural gas reserves in the Caspian area are also abundant. Turkmenistan alone has proven reserves of 12-21 trillion cubic meters of natural gas. Given such rich energy resources, it is understandable that Central Asian states wish to expand their energy market. The good news is that China is a fast growing consumer market for oil and gas, and such complementation provides a solid base for large-scale energy cooperation between China and Central Asia. Furthermore, Central Asia needs capital and technology in particular for its energy development. In this regard, China is a good partner with its over one trillion foreign exchange reserves and financially strong and technologically competent large companies for energy development and processing. There are obviously favorable conditions for China to participate in energy development in Central Asia and Siberia as well.

Thus it is right for China to gradually move into the energy development market in Central Asia. In September 1997, the CNPC was granted the right to participate in the development of the Aktiubinsk and Uzen oilfields in Kazakhstan, signifying the formal entry of Chinese enterprises onto the energy development market in the Caspian basin. Now, after years of operation in Kazakhstan, the CNPC has the capability for producing over five million tons of oil annually, aside from accumulating experience in cooperation with Kazakhstan partners. In October 2005, the CNPC successfully acquired Petro Kazakhstan (PK), a Kazakh oil company headquartered in Canada, making further progress in investing in the Central Asian energy market.

After several years of construction, the oil pipeline from Kazakhstan to China finally went into operation in May 2006. The pipeline's projected capacity is 20 million tons per year, which will be a big jump over the annual amount of 500 thousand tons handled on railways. By completion of the second phase of the pipeline, the final capacity will reach 50 million tons per year. President Nursultan Nazarbaev remarked at the launching ceremony, "when I suggested building this pipeline in 1997, everyone thought it was a crazy idea ... but today, we are to initiate the operation of this 1,000 kilometer-long pipeline claiming \$800 million. The whole region will become dynamic and the economy will undergo development as a result."⁴ This is the first pipeline in the history of Central Asia that goes to China and may reach the Pacific Ocean via China. For China, this is also a breakthrough in its overseas energy development strategy, since it is its first pipeline to the west and the first cross-border pipeline involving China. It is worth noting that this pipeline passes right along the ancient Silk Road that once promoted the interchange between the West and the East. Today, this Silk Road has assumed a new look in acting as a Eurasian "energy bridge" closely connecting China and Central Asian states.

In the meantime, there are numerous other energy projects either going on or being planned between China and Central Asia. China and Kazakhstan are actively promoting a gas pipeline between the two sides. In January 2005, the two countries held their first round of negotiations regarding the gas pipeline, and the project has been developing smoothly since then. By 2015, natural gas output in Kazakhstan will reach 50 billion cubic meters, but its domestic consumption will not exceed 16 billion cubic meters, while China will remain a major gas consumer. This means great potential for gas

⁴ *Nezavisimaia gazeta*, 20 December, 2005.

cooperation between the two countries. According to the information office of a Kazakhstan energy company, Kazakhstan plans to export 8-10 billion cubic meters of natural gas to China after 2008. If the China-Kazakhstan gas pipeline is connected to China's domestic west-to-east gas pipeline, Kazakhstan gas will be able to reach Shanghai via Xinjiang and other Chinese provinces, and even finally reach Japan and South Korea.

Besides, China and Turkmenistan are promoting the joint development of natural gas and the construction of a pipeline for transporting this gas. Turkmenistan and China signed an intergovernmental agreement in Beijing in April 2006 on the construction of a gas pipeline between the two countries with the capacity to pump 30 billion cubic meters of gas per year, which will start in 2009. During President Gurbanguly Berdymukhammedov's recent visit to Beijing in July 2007, a further agreement was signed to fulfill this project.⁵ China has also signed an agreement with Uzbekistan to build a gas pipeline of 530 kilometers between the two countries.⁶ Aside from oil and gas, hydropower generation has also been put on the cooperation agenda. The water and energy resource consortium formed by Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, etc. has decided to involve China as a major partner in its business.⁷ Key projects like the Tajik 500-kV power transmission grid financed by China are already making substantial progress.

China is adopting the following four policy principles for its energy development in Central Asia.

- First, ensuring regional security and stability is a precondition for energy development and energy security. China would like to join multilateral cooperation to guarantee security and stability in the region so that good conditions are created for energy cooperation. Efforts in this regard include: resolving various disputes and conflicts in the region by peaceful means; supporting the initiative to establish a nuclear-free zone in Central Asia; fighting extremism and terrorism; and cracking down on weapons smuggling, drug-trafficking, and other cross-border crimes.
- Second, Chinese firms are being rendered assistance in order to encourage their participation in energy development in Central Asia, especially in energy development cooperation with the member states of Shanghai Cooperation Organization. The government will play a facilitating and coordinating role in investments in Central Asia by granting preferential tax policies, providing consular services, and protecting the legitimate interests of Chinese citizens as well as corporate entities.
- Third, fair competition and international cooperation are both to be facilitated. China would like to conduct competition on an equal basis with all the countries and groups involved in energy development in Central Asia and is also ready to undertake any form of cooperation with them in the spirit of reciprocity. On the other hand, China is opposed to excluding any country from this sort of international cooperation and is also opposed to any attempt by any country or group of countries to dominate or monopolize the energy development market in Central Asia.
- Fourth, regarding the alignment of the oil and gas pipelines, China holds that it should be sorted out by adhering to the principles of mutual understanding, mutual concession, and mutual benefit. The interests of all the parties concerned should be taken into consideration. China opposes the addition of any political or ideological factor to the ultimate solution, as evidenced by the choice of a certain pipeline alignment, with the aim of rejecting or punishing a particular country.

⁵ See: *Financial Times*, 19 July, 2007.

⁶ See: *Oriental Morning Post*, 1 June, 2007.

⁷ Xinhua News Agency (Beijing), 11 October, 2002.

III. Energy Security in Central Asia: Current Situation and Future Prospects

The disintegration of the Soviet Union and the emergence of independent states in Central Asia have helped to open up Central Asia's oil and gas resources to the outside world. In this "open door" context, all interested countries have an equal opportunity to participate in the exploitation of energy in Central Asia.

However, energy security in Central Asia still faces serious challenges, just as the energy development in the region faces a series of barriers.

- Firstly, there are certain existing or potential clash points in Central Asia and its neighboring areas. They include the internal antagonism in Georgia, the Nagorno-Karabakh conflict, the Kashmir conflict, etc., all of which have a long historical past. Meanwhile, the Iraqi war has given rise to a new wave of terrorism and the return of the Taliban and al-Qa'eda in Afghanistan and other neighboring countries; extremist forces have won support in the poverty-stricken Ferghana Valley; the domestic situation in Kyrgyzstan and Pakistan has been restive due to internal political tension; and drug-trafficking, weapons smuggling, cross-border crimes, and other non-conventional security issues abound in the region. All these factors undoubtedly have a very negative impact on attracting investments for energy development in Central Asia.
- Secondly, the business environment in Central Asia is still far from ideal. Such noneconomic factors as red-tape, lack of law-based rule, a highly inadequate financial system, corruption, mafia groups, and organized crimes are greatly disturbing normal economic and energy cooperation.
- Thirdly, the available funds are still far from sufficient, with neither full-scale international financial cooperation nor substantial loans granted. Energy projects in Central Asia are by nature massive projects like oil and gas pipelines, and such projects demand huge financial investments. Following the increasingly keen competition for energy development in the region, it has become more and more difficult to enlist financial support for these massive projects from the international financial market.
- Finally, there is a host of technical impediments as well. For example, there are disputes over the demarcation and division of the Caspian Sea and relevant resources; geological inspection and pipeline construction face various technological difficulties and problems in this geographically complex region; the ecological environment in the region is deteriorating as a result of human factors; etc.

These problems can certainly be resolved. But one country cannot reach a resolution on its own, this requires joint regional and international cooperation by all the countries in the region.

Guaranteeing regional security and stability is a precondition for energy development and energy security. China, Russia, the Central Asian states, the U.S., the EU, East Asian countries like Japan and South Korea, South Asian countries like India and Pakistan, the ASEAN countries, and most Islamic countries in the Middle East do in fact have common interests in this area. These interests are mainly reflected in such aspects as fighting terrorism and extremism, especially bringing the antiterror war in Afghanistan to its successful conclusion; preventing the proliferation of weapons of mass destruction, including the proliferation of nuclear weapons and nuclear materials; promoting economic, social and cultural development in Central Asia and facilitating the post-war construction in Afghanistan; jointly coping with such nonconventional security threats as drug-trafficking, weapons smuggling, illegal immigration, cross-border crimes, environmental pollution, water resource shortage, and emergency public health incidents. At present, all the above-mentioned parties are making collabora-

tive efforts at various levels, and the U.N., SCO, EEC, CIS, EU, OSCE, NATO, etc. are playing important coordinating roles in promoting cooperation in the region.

It is fairly normal to see competition in energy development. For example, as far as the alignment of the oil and gas pipelines from Central Asia is concerned, Russia naturally wishes to see its traditional influence maintained, with the pipeline going through the Russian territory; the U.S. and some European countries may expect the pipeline to bypass Russia and lead to the west through the Caucasus and Turkey; and China is certainly interested in seeing more pipelines going eastward. Even in the easterly direction, we notice there is competition between China and Japan; and the Central Asia states and Russia are also voicing different considerations regarding the destination and route of energy flows. However, whether energy consuming nations or exporting nations, all agree that there should be dialog and coordination in addition to competition. Recently, the five largest energy consumers in the world, i.e. the U.S., China, Japan, South Korea, and India, held an energy meeting at the ministerial level, which fully testifies to the desire for cooperation. Now that energy export countries have long formed their organization, voices have been heard recently in the international community calling for the establishment of an energy consumers' cartel. Perhaps this is also something worth considering.

It is critical that all participating parties must work together to find win-for-all solutions, so as to avoid the worst scenario of competition leading to conflict. For example, as far as the alignment of energy pipelines from Central Asia is concerned, only a multi-directional alignment will benefit all the parties. It is undesirable to strongly support one option with total disregard for others' interests, and also impossible in this era of globalization. So multilateral structures will prove indispensable for tackling such issues.

Take the Shanghai Cooperation Organization (SCO) for example. This multilateral organization has integrated, for the first time in history, the diverse interests of China, Russia, and the Central Asia states by minimizing the differences or undesirable consequences coming from competition, while maximizing and consolidating their common interests. The SCO has played a positive role, for instance, in opening the Kazakhstan-China pipeline to the Russians as well, although it appears to be a rival to the Russian pipeline. In this way, multilateral energy cooperation among China, Central Asia, and Russia is solidly promoted within the SCO framework. As early as May 2004, President Nazarbaev remarked during his visit to China that Kazakhstan invited Russia to export oil to China through the Kazakhstan-China pipeline.⁸ It is pleasing to see his idea now being turned into reality. On the one hand, the oil resources for the pipeline come from the CNPC oilfields in western Kazakhstan, as well as from oilfields in southern Kazakhstan where Russian and Canadian oil companies operate; on the other hand, China, Kazakhstan, and Russia can also swap their oil production, i.e. the CNPC's production, being close to the Caspian sea, can be exported to Russia through the existing Kazakhstan-Russia pipeline, while Russia can export the same amount of production to China through the Kazakhstan-China pipeline. Such an arrangement can really be a good case of win-win for all. For this purpose, Kazakhstan and Russia have decided to improve the capacity of the Kazakhstan-Russia pipeline and connect it to the Kazakhstan-China pipeline. A Russian newspaper printed the following headline on this matter: "Russian oil is Flowing to China through the Kazakh Pipeline."⁹ And the Kazakh energy minister points out, "This will be a real example of cooperation among Kazakhstan, China, and Russia, three SCO states."¹⁰ At present, some countries, like Uzbekistan, are already showing a strong interest in exporting oil and gas to China through this Kazakhstan-China oil pipeline and the planned Uzbekistan-China gas pipeline. Russian observers believe that the Kazakhstan-China pipeline is the first step taken within the SCO to form an energy club involv-

⁸ See: Xinhua News Agency, 18 May, 2004.

⁹ *Vremia novostei*, 22 February, 2005.

¹⁰ ITAR-TASS (Moscow), 17 November, 2005.

ing both producers and consumers.¹¹ There are now also deliberations about the possibility of transporting energy produced in Central Asia, the Caucasus, or even the Middle East to South Asian countries (like India and Pakistan) and East Asian countries (like Japan and South Korea), as well as China, via the Kazakhstan-China pipeline and others. Russians have said that the Kazakhstan-China gas pipeline to be constructed soon may also be extended to Uzbekistan and Turkmenistan, and may even later be connected to the Russian and Iranian gas grid, thus forming a massive network in Asia.¹² Such a scenario has already reared its head. The pipeline from Central Asia to East Asia can transport not only the oil and gas produced in Kazakhstan, but also that produced in Russia, Turkmenistan, Uzbekistan, Azerbaijan, and even Middle East countries like Iran. In this way, energy cooperation will be enhanced between Central Asia and East Asia, and even between the Middle East and the Asia-Pacific Region.

Although there are certain barriers as well as real competition, the prospects for energy security and energy development in Central Asia are still promising and optimistic. First of all, all the participating parties have recognized that regional security is a prerequisite for energy security and development and have common interest in guaranteeing security, stability, and prosperity in Central Asia. Secondly, as there are cross investments and cross holdings of shares in each other's business operations, there is an increasing overlapping of interests among the companies and states engaged in energy development in the region. As shareholders in the Central Asian energy market, all the participants will have to follow the general rules of the game and act in a mutually responsible manner if they are to reap benefits from the business here. This means that any short-sighted act that hurts others' interests is likely to boomerang, and only reciprocity will ensure the sustainable development and prosperity for all involved. Finally, although pipelines in different directions lead to different destinations and may seem competitive, they do after all join together in Central Asia, forming an energy supply network that considerably shortens the transportation distance among East Asia, the Middle East, Europe, Russia, and South Asia, or rather within the Eurasian continent. Viewed in this broad perspective, the new Silk Road of energy transportation will make Central Asia another energy hub of the world, next to the Middle East, and this fact will become a critical factor shaping the promising scenario of energy development in Central Asia.

C o n c l u s i o n

With China's rapid economic growth, particularly its accelerating demand for energy, Central Asian energy security is becoming more and more strategically significant for China. The Shanghai Cooperation Organization has enabled China to establish unprecedented security, political and economic relations with the region, which creates conditions for China playing an active and constructive role in energy development in Central Asia.

Despite the challenges to energy security and the obstacles to energy exploitation in Central Asia, all the shareholders are now determined to maintain stability and promote development in Central Asia, and are trying to strive for a win-win outcome for all amidst serious competition. In this context of both competition and cooperation, the rejuvenated ancient Silk Road will emerge as an energy supply hub and a golden energy corridor. We are confident in saying that energy security and energy development in Central Asia do have very bright prospects.

¹¹ ITAR-TASS (Astana), 6 February, 2005.

¹² Ibidem.

GEORGIA: ENERGY POLICY

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This article describes the main vectors in Georgia's state policy in the energy sector during the years of independence after the Rose Revolution and calculates the forecast indices and anticipated results of the development of the power industry until 2015.

Urgency of the Problem and Energy Policy Tasks

The formation and implementation of energy policy in Georgia is of special importance. There are objective reasons for this. The country customarily experiences a shortage of fuel and energy resources (FER). The situation became particularly aggravated after the country gained its independence. It became clear that a concise energy policy was essential not only to guarantee the country's economic security, but also to preserve its statehood. Since the very first days of independence, the country has had to come to terms with the situation that has developed, reconsider its limited material-financial and natural energy resources, and create and implement an optimal model of its energy policy. According to the Georgian Constitution, an integrated energy system is among the facilities that are specifically managed by the highest state bodies.¹ This means that the government has a particular responsibility in this issue.

In compliance with the Georgian Law on Electric Power and Natural Gas, the Ministry of Energy is drawing up the main vectors of state policy in the country's energy sector, and it also puts these vectors into practice after they are approved by parliament.²

The concept "energy policy" implies a general course and system of measures in energy management. It includes defining the relevant areas in the processes going on in the country in keeping with the goals and tasks it faces. This concept reveals the country's dependence on the energy complex.

During the years of independence, the Georgian Ministry of Energy has drawn up several projects, conceptions, and main vectors of the country's energy policy, but until 2006 none of them were approved by the parliament.

The Main Vectors of State Policy in Georgia's Energy Sector program was approved by the parliament on 7 June, 2006. It was of special significance both for the country's general socioeconomic development, and for its energy sector in particular.³ The energy policy vectors were defined keeping in mind the specific problems of the transition period (restoration of territorial integrity, distribution of economic and political functions, creation of a corresponding legislative base of a socially oriented market economy, inclusion of the country in the global economic system, and so on). Development of the vectors is based on a fundamental study of the present state of the energy sector, an

¹ See: *Constitution of Georgia*, Tbilisi, 1995, Art 3.1 (in Georgian).

² See: *Georgian Law on Electric Power and Natural Gas*, Tbilisi, 1999, Art 3.1 (in Georgian).

³ See: *Resolution of the Georgian Parliament on the Main Vectors of State Policy in Georgia's Energy Sector*, Tbilisi, 7 June, 2006 (in Georgian).

analysis of the reasons for the crisis at the first stage of development, the formation of the main principles of state regulation of this sector in its individual branches, etc.

The main factor in raising the efficiency of the country's fuel and energy complex is scientific, engineering-technical, and innovative activity. Scientific-technical and innovative policy within the energy complex relies on the latest achievements of fundamental and applied sciences in the energy sphere. In so doing, the problems of the economy as a whole, and of the energy sphere in particular, should be resolved taking into account the local specifics.

One of the most important tasks of energy policy is searching for ways to form a stable energy system in the country and resolve the problems relating to raising energy efficiency and improving environmental protection.

Since the fuel and energy complex is one of the main sources of environmental pollution, the functioning and development of the power industry has recently been encountering extremely urgent environmental problems. Due to the low rates of waste utilization and the impossibility of their mass processing, one of the most serious and urgent problems in the fuel and energy complex is pollution of the oil-production territories with oil and petroleum products.

An important problem is concentration of the negative impact on the environment of the activity of fuel and energy enterprises on the territories where energy is produced and processed. This is complicated by the unsatisfactory environmental level of the technological processes, the physical and moral wear and tear on the basic equipment and units, and the underdevelopment of mechanisms for ensuring environmental protection (reducing and neutralizing the negative impact on the environment).

The problem of ensuring the environmental safety of the oil and gas production projects being implemented on the Black Sea shelf is also important. Energy policy is aimed, among other things, at gradually reducing the load of the fuel and energy complex on the environment and bringing it into harmony with the corresponding international standards.

Development of the Main Fuel and Energy Branches

The main accent in state energy policy is shifting to the electric power sector—the leading branch in the fuel and energy complex.

In Georgia's electric power sector, the main task of long-term policy is to fully satisfy the country's demands for electric power by means of its own hydropower resources. There are plans to gradually solve this task primarily by declining import and later by substituting energy resources. But first it is necessary to rehabilitate the infrastructure of thermoelectric power stations and equip gas turbine plants with the latest technology.

In this respect, energy policy is hoping to resolve several problems at once, in particular:

- complete re-equipping of the morally outmoded and physically worn out technical base;
- building new power stations, as well as creating an infrastructure for the transportation of electric power and natural gas;
- diversifying the import sources of energy resources (natural gas, oil, electric power);
- forming a commercially profitable economic model for the sector.

The main vector in the development of Georgia's energy sector should be efficient assimilation of the country's rich hydropower resources. In so doing, both small and medium, as well as high-capacity hydropower plants must be built.

The special features of Georgia's geographical location presume incorporating import-export operations and the transit of energy resources into the country's fuel and energy complex. The exist-

ing infrastructure must also be rehabilitated and new power transmission lines, substations, and natural gas pipelines linking the energy systems of neighboring countries built.

Georgia must be gradually transformed from an importer of energy resources into a state that possesses sufficient possibilities for developing its own power industry. The development of the energy and energy transport infrastructure linking Europe and Asia is a strategic interest within the framework of Georgia's energy sector.

The following is envisaged in particular:

- backing up and building high-voltage power transmission lines linking Western and Eastern Georgia, which will ensure the sustainability of the energy system;
- building new high-voltage power transmission lines linking Georgia to the energy systems of neighboring countries;
- based on the technical possibilities, operating concurrently with the energy systems of neighboring countries;
- expanding the trans-Caspian energy corridor;
- building pipelines linking Georgia's gas supply system with those of neighboring countries;
- creating underground and above-ground energy storage facilities.

Due attention is given in the above-mentioned document to development of the fuel industry, which primarily implies increasing the production of local energy resources, including- searching for and prospecting new oil and gas fields, and also preparing their supplies in large amounts.

The strategic tasks for developing Georgia's oil and gas industry until 2015 are the following:

- promoting a stable and significant increase in the annual production of hydrocarbons by discovering new high-output oil and gas fields to satisfy the country's domestic needs mainly with its own resources;
- ensuring an annual production of oil and gas with accelerated and expanded preparation of the proven supplies both in the traditional oil-producing regions, and particularly in new prospective areas;
- making rational use of the proven supplies of oil and gas, especially at old fields at the final stages of development, and achieving high end indices of oil production by introducing new technologies;
- providing the country with petroleum products and gas, creating state reserves of oil and petroleum products, as well as underground storage facilities for the purpose of carrying out safety measures;
- specifying their existing reserves and intensifying production;
- operating coal fields that have economically advantageous mining and geological conditions.

The strategic goals of the coal industry's development in Georgia are as follows:⁴

- supplying the economy and country's population with local coal and its products;
- raising the competitiveness of these types of fuel on an alternative energy resource market;
- ensuring sustainable and safe development of the industry based on contemporary scientific-technical achievements and the use of environmentally pure technologies;
- providing jobs for the local population.

Georgia's natural conditions make it possible to develop the production of alternative types of energy to a significant extent. In particular, there are plans to make greater use of these types of ener-

⁴ See: *Georgia's Energy Strategy* (group of authors), Tbilisi, 2004, p. 81.

gy keeping in mind that both traditional and alternative types of energy are being used under equal conditions.

The use of alternative sources of energy should be increased in order to reach the following goals:

- to reduce the use of secondary sources of energy;
- to ensure the environmental safety of the fuel and energy complex;
- to lower decentralized energy consumption;
- to reduce the use of imported fuel.

The following is needed to provide the country with reliable heat supply:

- efficient functioning of heat generation facilities, their sustainable development on the basis of new state-of-the-art technologies;
- drawing up programs to reform the heat supply infrastructure and forming a corresponding state management system;
- optimizing decentralization of heat supply of cities and enterprises;
- developing and implementing measures of state regulation of heat supply in order to raise its commercial efficiency; reducing the discharge of waste into the environment; more rational use of urban areas;
- forming a regulatory base for heat supply, including adopting a law on heat energy and energy saving.

Economic Reform Policy and the Efficient Use of Energy

Based on the need to form new market relations in Georgia's energy sector, efforts are being exerted at present to gradually liberalize and deregulate the electric power market. This is ensuring the distribution of rights, obligations, and responsibilities among the functioning entities. It is being achieved on the electric power market by transferring to a system where wholesale sellers and buyers enter into direct agreements.

Continuing the economic reforms is one of the priorities of state policy in the energy sector. This primarily concerns privatization of the industry. This is being carried out in Georgia by electric power and natural gas distribution companies. The main task of state policy in this area is rendering as much assistance as possible to the activity of local and foreign investors and keeping bureaucratic mechanisms and procedures to a minimum. From this viewpoint, licensing must be optimized and the permit-issuing process simplified.

Legislative and institutional acts must be drawn up and improved in order to promote the efficient use of energy and the necessary measures implemented to optimize the use of renewable types of energy, heat supply facilities, and co-generating systems.

The refurbishment and rehabilitation of energy facilities has a significant role to play in raising energy efficiency and energy safety.

Raising the level of energy efficiency will promote development of both the energy complex and the country's economy as a whole. Orientation of the economy toward energy-intensive technology will not only make it less competitive, but will also create serious and essentially unsolvable problems in providing the country with energy resources. Proceeding from this, a priority task in energy policy is promoting measures to transfer all the branches of the country's fuel and energy sector and economy as a whole to energy-saving technology.

State policy is aimed at clear and unconditional adherence to the mentioned strategic references for raising energy efficiency. This can only be achieved by carrying out a wide range of measures designed to stimulate and regulate the consumption of energy resources, which will ensure a goal-oriented industrial policy and structural transformation of the country's economy in favor of low energy-intensive branches, as well as improvement of the technological potential of energy saving.

According to experts, the untapped technological potential of energy efficiency is equal to approximately one third of the country's total energy supply. Based on this, not one other measure is capable of competing with an increase in energy efficiency and it can confidently be considered a new energy resource.

An intrinsic element of energy policy is optimizing metering. To this end, there are plans to finish installing communal and individual meters. This is primarily being carried out in large cities and regional centers, but it should eventually encompass the entire country.

In order to successfully implement the economic reforms in the industry, an appropriate institutional environment is to be created. The following is necessary for this:

- reducing the number of licenses and permits to a minimum, and simplifying the license-issuing procedure as much as possible;
- deregulating power stations that went into operation after 1 January, 2007;
- ensuring transparency in carrying out privatization in order to achieve regular supply of end consumers with electric power and natural gas;
- defining the rights and responsibilities of the sides (state and investor) participating in the privatization process and their distribution on the basis of a corresponding agreement.

In order to improve the sector's economic stability, the energy policy envisages putting the rules for the electric power (capacity) and natural gas market into effect. The relevant legal documents have already come into force.

Enhancing competition and carrying out gradual deregulation in sectors of power engineering and gas industry will be facilitated by such measures as the transfer to direct contractual relations between the producers and wholesale buyers of electric power, as well as liberating the energy sector from its old debts. According to the energy policy, at this stage, a person or group of persons does not have the right to possess more than 70% of the entire production and distribution volume of electric power (not counting the electric power of direct consumers).

In Georgia, state regulation of the power industry has been in effect for more than 10 years. The creation of a regulating body is an important part of the extensive and complex process of economic reform of the energy sphere. Significant results were achieved in this during the period mentioned. This primarily concerns tariff regulation of electric power and natural gas, as well as licensing. It goes without saying that conducting a correct tariff policy will promote the successful implementation of the economic reforms in the country.

According to the main vectors of energy policy, the tariffs should protect consumers from monopolistic prices and also give the energy system the possibility of ensuring long-term and sustainable financial-technical development. The tariff methodology envisages the following for different types of consumers:

- (a) seasonal tariffs;
- (b) peak (daily) load tariffs;
- (c) block-rate tariffs (based on the consumption volume);
- (d) long-term pre-fixed tariffs (including maximum);
- (e) maximum tariffs.

Seasonal tariffs and peak (daily) load tariffs should be based on the principle of neutrality, their use should not be mandatory either for the sellers or the buyers of electric power. They should be based on agreements between the sellers and buyers.

The use of block-rate tariffs, long-term pre-fixed and maximum tariffs (based on the consumption volume and principle of neutrality) will be mandatory for both sellers and consumers. An exception might be those consumers who use communal meters. The use of block-rate tariffs is not envisaged for them.

Energy policy envisages the gradual implementation of tariff deregulation for electric energy production. The tariffs should take into account the specifics of different categories of consumers and cover the reasonable expenses associated with services offered by licensees.

Increased attention in energy policy must be focused on foreign energy relations. This will make it possible to:

- economize on expenses during energy production;
- introduce different types of macro-economic advantages;
- successfully carry out reforms in the energy sector;
- participate on the domestic market of the European Union.⁵

This in turn envisages:

- exchange of electric power with the energy systems of neighboring countries;
- long-term cooperation with the technical operators of the electric power systems of neighboring countries in order to ensure export in the event of surplus electric power and its import in the event of shortages;
- initiation and harmonization of a corresponding regulatory framework in order to form a regional energy power market;
- efficient use of the country's geopolitical position and assistance to the import-export and transit of energy resources;
- development of the energy and energy transportation infrastructure linking Europe and Asia both in the easterly and westerly, as well as in the northern and southern directions;
- ensuring diversification of natural gas and electric power sources.

Anticipated Results

The Main Vectors of State Policy in Georgia's Energy Sector program presents a forecast of this sector's development. For the period until 2015, according to the estimates of the Ministry Energy, Georgia's electric power system will be non-deficit after 2006. Electric power production in 2015, compared with 2006, will increase 2.2-fold and net consumption 1.64-fold. Surplus energy will reach approximately 3.0 billion kWh. The share of hydropower stations (GES) in the total electric power production will grow from 71.6% to 79.1%.

The introduction of new capacities is envisaged: the KhudoniGES, NamokhvaniGES, and ParavaniGES, as well as the ZhonetiGES, and the TvishiGES. Moreover, new small hydropower plants generating up to 500 million kWh of electric power a year will go into operation. There are plans to launch wind-power stations (see Table).

⁵ See: D. Chomakhidze, *Georgia's Energy Security*, Tbilisi, 2003, pp. 163-165 (in Georgian).

Table

Forecast of Electric Power Production in 2015
(million cu m)

Name of Electric Power Station	2006 ⁶	2015 ⁷	2015 in % of 2006
InguriGES	1,652.1	3,610	218.5
VardniliGES	363.2	606	166.9
VartsikheGES	721.1	740	102.6
LajanuriGES	274.7	380	138.3
GumatiGES	220.2	250	113.5
ZhinvaliGES	390.4	500	128.1
KhramiGES-1	334.7	215	64.2
KhramiGES-2	118.2	290	245.3
RioniGES	290.5	290	99.8
KhudoniGES	—	1,328	—
NamokhvaniGES	—	910	—
ParavaniGES	—	140	—
ZhonetiGES	—	280	—
TvishiGES	—	400	—
Other hydropower stations, including small	951.0	2,587	272.0
Hydropower stations, total	5,316.1	12,826	241.3
TbilGRES	663.9	—	—
Mtkvari-energetika	1,149.5	1,621	141.0
Energy-investi	290.4	347	119.5
Thermoelectric power stations, total	2,103.8	1,968	93.5
Wind-power stations	—	1,425	—
Production of electric energy, total	7,419.9	16,219	218.6

⁶ See: *Annual Report of the Georgian National Commission for Energy Regulation (NCER)*, Tbilisi, 2006, p. 58 (in Georgian).

⁷ See: *Resolution of the Georgian Parliament on the Main Vectors of State Policy in Georgia's Energy Sector (Appendices)*.

As for the forecast on natural gas consumption, it is envisaged in the following volumes (million cu m): 3,433 in 2010, 3,533 in 2015, compared with 1,881 million cu m in 2006.

More than a year has passed since the parliament adopted the Main Vectors of State Policy in Georgia's Energy Sector program. As already noted, some of the measures envisaged have already been implemented during this period. The Georgian Ministry of Energy, in cooperation with corresponding organizations, is working on adding the final touches to the mentioned documents taking into account the new circumstances. The question is being considered of the expediency of building a nuclear power station in Georgia.

Implementation of the state's energy policy should be based on a continuously updated regulatory framework by adopting laws that have a direct effect on the various branches of the energy complex, as well as by ensuring a favorable legal space for it to function.

Implementation of the energy policy will help to form a competitive fuel and energy complex in Georgia, as well as a dynamically developing energy market oriented mainly toward the use of its own fuel and energy resources—a market, the parameters of which will meet the growing needs of the economy for energy resources and, due to the country's participation in international regional energy systems, will make it even more possible to ensure sustainable and safe energy supply.

THE KYRGYZ REPUBLIC: THE PRESENT AND FUTURE OF INTERSTATE COOPERATION IN THE ENERGY SPHERE

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1. The Level of Power Production and Interstate Cooperation

Its rich water resources (50 billion cu m of surface runoff a year, 13 billion cu m of potential ground water resources, 1,745 billion cu m of lake water, and 650 billion cu m of glaciers) set the Kyrgyz Republic apart from its neighbors. The region's largest rivers (the Naryn, 807 km; Chu, 380 km,

Talas, 200 km, Saryjaz, Kara Darya, Chatkal, and others that belong to the Syr Darya and Amu Darya basins) form their runoffs in Kyrgyzstan. Its hydropower potential is estimated at 162 billion kWh, or 38 percent of Central Asia's total; it has not yet been fully tapped: the level does not exceed 8 to 9 percent.¹ The annual hydropower potential of the smaller rivers is between 5 and 8 billion kWh; today the national economy uses only 3 percent. It is believed that non-traditional renewable energy sources may produce 800 million tons of standard fuel. So far, little has been done here either to exploit them to their maximum capacity.

The republic's hypothetical coal reserves are assessed at over 2 billion tons; the undiscovered reserves of oil and gas are equal to about 289 million tons of standard fuel; today, only a fraction of this wealth is used. Between 1991 and 2006, oil production dropped 2.2-fold and natural gas 3.8-fold. On the whole, locally produced oil and gas cover a meager 5 percent or even less of the republic's needs. This means that it completely depends on Russia, Kazakhstan, and Uzbekistan for fuel.

In the last fifteen years, the Kyrgyz Republic, which has been building up its statehood and moving toward a market economy, tried to maintain its fuel-and-energy balance (FEB) in the midst of an economic slump and disrupted interstate economic relations. This was not easy: in 2005, the production of fuel and energy resources dropped to 52 percent, energy imports to 22 percent; energy consumption to 90.4 percent, and energy exports to 27 percent of the 1990 level.

An analysis of the macroeconomic indicators and power consumption has demonstrated that, on the whole, power consumption rates declined slower than the GDP rates and was accompanied by a steadily decreasing electric capacity of the GDP to 43 percent; per capita power and electricity consumption dropped to 28 and 70 percent, while the GDP's electric capacity decreased to 106 percent against the 1990 level.

Disrupted interstate relations in the energy sphere are responsible for the structural shifts in the republic's FEB: the republic's coal imports have dropped from 2.9 million tons in 1990 to 981 thousand tons in 2005, or 33 percent of the 1990 level; between 1990 and 2005, coal mining decreased from 3.74 million tons to 335.3 thousand tons, or 11-fold. Today, the heat and power plants, local boiler houses, and population in general are exposed to an acute shortage of fuel. About 60 percent of the total amount of coal the country uses goes to the energy sector to produce electric and heat energy.

Power industry is the cornerstone of the republic's budget; its share in gross industrial output increased from 4.2 percent in 1990 to 20.4 percent in 2005. Power production is growing faster than that of other energy resources: from 13.3 billion kWh in 1990 to 14.48 billion kWh in 2006. The share of hydropower stations in power production increased from 67 to 94 percent, while the share of heat and power plants dropped from 32 to 6 percent in 2006. This happened because energy fuel prices skyrocketed, while fuel deliveries from neighboring countries became sporadic. There are 17 power stations in the republic with a total installed capacity of 3,680 MW; this number includes 15 hydropower stations with the installed capacity of 2,950 MW and two heat and power plants of 730 MW; the share of the hydropower stations in the republic's FEB is 81 percent; of heat and power plants, 17 percent; and of small hydropower stations, 1.3 percent.

Energy is transferred and distributed via more than 70 thousand km of 0.4, 500 kV power transmission lines; 546 km of which are lines of 500 kV; 1,714 km, 220 kV, and 4,380 km, 110 kV; there are also about 490 transformer substations of 35, 500 kV and with a total capacity of over 8 million kW. The republic's energy system is connected with the energy systems of its neighbors through the trunk system-forming power transmission lines; together they belong to an energy ring of 500-220 kV of the United Energy System of Central Asia (UES CA). This brings electric power to practically all corners of the republic.

¹ Here and elsewhere the authors use the working papers of the Ministry of Industry, Energy, and Fuel Resources of the Kyrgyz Republic.

At the same time, Kyrgyzstan trails behind the world's average in terms of per capita energy consumption: 1,777 kWh and 2,343 kWh, respectively, and even behind its Central Asian neighbors—Kazakhstan (3,312), Tajikistan (2,172), and Uzbekistan (1,796.)

This is explained in part by the 18 percent drop in energy consumption in the real economic sector between 1990 and 2005; at the same time, today the amount of electric energy transformed into other types of energy is 2.6 times greater than before. The drop in energy consumption was especially obvious in industry, where it reached 52 percent of the 1990 level. At the same time, today the communal sector is using more than twice as much energy, which recompenses for the drop in energy consumption in the real economic sector. The steadily growing prices on all types of solid fuel, natural and liquefied gas, and the ruptured interstate energy relations are behind this.

Today, the Nizhne-Narynsky Cascade of the hydropower stations with a total capacity of 2,780 MW, the Toktogul long-period storage reservoir, and the Kurpsay, Tashkumyr, Shamaldysay, and Uchkurgan seasonal- and daily-storage reservoirs are the only reliable power sources. They were also used to ensure alternating loading of the neighbors and regulate the UES CA frequencies. The optimal UES CA regime presupposes mutual power deliveries during the peak periods at the Cascade during vegetation development when the hydropower resources of the Naryn-Syr Darya basin are also comprehensively used for irrigation and maximum production of heat and power plants in the fall and winter.

It is highly important for the entire region that the Toktogul hydropower system and the long-period storage reservoir of 19 cu km should be adjusted to the interests of Kazakhstan and Uzbekistan, the two countries located on the rivers' lower reaches, and that sanitary release of water into the Aral Basin should be ensured. The project put on the table by the Zhuk Institution of Hydro-Engineering intended the Toktogul system for irrigation; it was expected to expend 70 percent of its water during the vegetation period. Uzbekistan and Kazakhstan should have shared the resultant energy (over 4 billion kWh a year) and recompensed Bishkek in the fall and winter with natural gas (over 1 billion cu m), coal (600-800 thousand tons) from Kazakhstan, and furnace fuel oil (350 thousand tons). Independence disrupted the economic ties among the Central Asian states; what used to be interdepartmental contacts and interdepartmental disagreements developed into interstate contacts and interstate disagreements. The republic's neighbors cut down their fuel exports, which forced Kyrgyzstan to adjust the regime of the Toktogul system to its own needs: in wintertime it produces energy for domestic consumption and irrigates its neighbors on the lower reaches of the Naryn and Syr Darya in summertime.

In 1998, the states situated in the basins of these rivers signed interstate agreements On Parallel Work of the UES CA Power Systems and On the Use of Water and Energy Resources of the Syr Darya Basin. The agreements remained on paper while Kazakhstan and Uzbekistan, which actively sought energy independence, cut down the net power flow by more than half in 1991-2005. Today Uzbekistan imports less natural gas and other fuel for the needs of heat and power plants (1,015 million cu m in 1990 and 175.5 million cu m in 2005); Kazakhstan sells less furnace fuel oil (a drop from 350 thousand to 17.2 thousand tons) and coal (from 1,037 thousand to 689 thousand tons); Kyrgyzstan sends 19.5 thousand tons of coal to heat and power plants instead of the previous 568 thousand tons, while it receives the same 601 thousand tons of coal from the Karaganda basin of Kazakhstan. This structure of fuel consumption (97 percent of which is imported at prices close to the world prices) can hardly be called economically reasonable. Every year the Kyrgyz Republic spends about \$32-37 million on fuel; 43 percent of the money is spent on natural gas transportation and 52 percent on coal transportation. The Bishkek heat and power plant uses only 3 percent of the coal mined in the coal-rich republic: in post-Soviet times, it has become cheaper to buy coal from Kazakhstan than to move the coal mined in the republic's south to the north by the railway that crosses Uzbekistan, Tajikistan, and Kazakhstan.

The energy companies suffered because of the reduced exports and higher prices on imported fuel. On top of this the installed capacities of the hydropower stations of the Nizhne-Narynsky Cascade and the Bishkek heat and power plant remain underloaded. In fact, the republic might be squeezed from the energy market, if the government remains passive and goes on with its poorly balanced policies. It should more actively develop interstate energy ties and insist on the country's integration into the emerging united Central Asian energy market.

The losses, which increased 5-fold between 1991 and 2006, had a negative effect on the power system's financial and economic position. Since 1993, the system has been suffering not only from technical, but also from so-called commercial losses (the stealing of energy): in 2006, 5,135 billion kWh of electric power, or 34 percent of the total amount produced (50 percent of the energy that went to the distributors), were lost (stolen). In 2006 alone, the country lost 2,957 million som (\$77.8 million) with an actual average sale tariff of 57.6 tyyn (1.51 cents) per 1 kWh through technical and commercial losses.

Technical losses are increasing together with equipment depletion, the larger part of which has outlived its service life. Electric power is being stolen because of inadequate management and inadequate administrative and legal tools designed to prevent stealing, and also corruption among the inspectors; there is no money to install automatic systems for commercial accounting of power consumption, or similar electronic systems.

The production, import, and consumption of energy have decreased, but the republic's GDP remains highly energy intensive (1.08 toe per \$1,000) and much higher than the world's average (0.30 toe per \$1,000) because of the low technical level of energy-consuming processes and depletion of most of equipment (this is true of the fuel and energy complex as well). There is not enough money to introduce energy-saving measures, the potential of which in the real economic sector and service business is assessed at 35 to 40 percent. If realized, such measures could have reduced energy intensity, boosted competitiveness of locally produced products, and made the republic's economy more energy-efficient.

In the last fifteen years, the republic pursued the following goals stipulated by the Law on Energy:

1. Ensuring the country's energy security by developing trunk power lines and generating sources on its own territory; replacing obsolete and depleted equipment, developing a system of commercial control of electric power, and creating a wholesale energy market.
2. Putting the production structures on a functional basis to adjust them to the market economy through sales of shares, partial privatization, and corporate management.

Privatization of the republic's energy complex called for consecutive and interconnected steps arranged in four stages.

The first stage has been completed by 70 percent. On 16 June, 1997, the Ministry of Justice of the Kyrgyz Republic registered the Kyrgyzenergo joint-stock company as a legal entity. From that day on it has been functioning as a public joint-stock company with a share of private capital. The authorized capital of the Kyrgyzenergo was set at 7,470,107.7 thousand som. Much has been done to take stock of its property and analyze the results. Of all the boiler houses, only the one in Karakol was transferred to the state administration.

At the second stage of the same program:

- The maintenance enterprises Kyrgyzenergoremont and Kyrgyzenergospetsremont and the Cascade of the Alamedin hydropower stations (later the ChakanGES Hydropower Station joint-stock company was set up on their basis) were removed from the structure of the Kyrgyzenergo joint-stock company.

- The local executive bodies received some of the housing and communal and social service facilities.

On 12 January, 2001, a general meeting of the Kyrgyzenergo shareholders was convened, at the third stage, to remove four electric power-distributing companies and one heat-distributing company from the Kyrgyzenergo joint-stock company.

As a result, seven new joint-stock companies with a state-owned controlling interest were set up: the Elektricheskii stantsii (Electric Stations) joint-stock company as a power-generating company; the Natsional'naia elektricheskaiia set Kyrgyzstana (National Electric Grid of Kyrgyzstan) joint-stock company is engaged in managing the electric grids; four companies (the Sevelelektro, Vostokelektro, Oshelektro, and Jalal-Abadelektro joint-stock companies) engaged in power distribution; there is also one heat-distributing company (Bishkekteploset), as well as joint-stock companies with a share of private capital (the ChakanGES, Kemin and Kalinin hydropower stations).

The largest part of the former company's authorized capital went to the Electric Stations joint-stock company (60 percent); the National Electric Grid of Kyrgyzstan JSC received 22 percent; Sevelelektro JSC, 6 percent; Bishkekteploset JSC, 5 percent; Jalal-Abadelektro JSC, 3 percent, while Vostokelektro JSC and Oshelektro JSC acquired 2 percent each.

The state owns 93.65 percent in all the newly formed companies: the Ministry of State Property of the Kyrgyz Republic owns 80.49 percent of the state's shares; the Social Fund, 13 percent; legal entities, 4.035 percent, and 2.32 percent belongs to private individuals. The state shares cannot be sold or pledged; neither can they be transferred to trust management, and these companies' property cannot be alienated.

It was expected at the fourth state that:

- in the 3rd quarter of 1998 consulting firms expected to identify the best strategic investors would participate in a tender;
- the results of the tender would be summed up in the 4th quarter of 1998;
- an investment tender for the energy complex facilities would be announced in 1999;
- in the 1st quarter of 1999, large state-owned blocks of shares (up to 70 percent) of all joint-stock companies with the exception of the state-owned Naryn Cascade and National Electric Grid joint-stock companies would be sold to strategic investors on a competitive basis.
- in 1999 the results of the tender for strategic investments or for transferring companies to trust management would be summed up, while the state would retain its controlling interest in power production and power transmission.

The fourth stage has not yet started. Restructuring and power and heat rates that do not cover the production and distribution costs are crippling the power companies economically and financially. On top of this the price of exported power has dropped, which incurred losses for the Electric Stations JSC engaged in the export of electric power.

The slump is explained by the inadequate mechanisms of collecting payments for power transmission and distribution and cross-purpose subsidizing, and the low level of payment collection for power according to average electricity rates (in 2006, this share reached 77 percent, which increased customer receivables to the distributing companies (DEC) to \$83 million). The DEC, in turn, accumulated a debt of \$99 million to the Electric Stations (ES) public joint-stock company and \$50.5 million to the National Electrical Grid of Kyrgyzstan (NEGK) public joint-stock company. In the last decade, all the power corporations, with the exception of the NEGK, were losing money, which means that they were accumulating trade and tax liabilities.

Technical and commercial losses remain high; in 2006 they reached 38 percent (40 percent in 2005), of which 18 to 20 percent, respectively, can be described as technical and 18 and 22 percent as power misappropriation by customers. According to the IMF, in 2006 the quasi-fiscal GDP deficit incurred by power companies reached 4.5 percent (7.6 percent in 2005); this weights heavily on the republic's macroeconomic stability and sustainability of its budget.

The nonpayment crisis is exacerbated by the current energy tariffs (an average rate of 1.63 cents per kWh in 2006), which cannot cover the cost of power production, transmission, distribution, and sale (2.3 cents per kWh according to the WB and IMF) and leaves the power companies underfunded. None of them could re-invest in grid reconstruction, new power-control technologies, development, or capital construction.

The companies' financial and economic instability undermines the republic's economic security. Its energy security is adversely affected by the following domestic factors: the low level of financial management and technological commercial control, power misappropriation by customers, the low financial discipline of users, and inadequate attention to the funding sources designed to restore and retool the power industry.

The following is needed to break the vicious circle:

- Discuss and approve the draft project entitled "Medium-Term Tariff Policies of the Kyrgyz Republic for 2007-2010," under which the tariffs should be gradually raised to cover the costs;
- Aim this policy at creating a transparent mechanism of export tariffs which should not be lower than the current (on the day of the conclusion of contracts) power prices on the national and regional power markets;
- Amend the privatization laws applied to the already functioning and planned hydropower and thermal power stations, and endorse the fourth stage of the privatization program.

In June 2007, the parliament of the Kyrgyz Republic discussed the results of the first three stages of restructuring the power sector and transfer to the fourth stage. The deputies also discussed the amendments to the privatization laws related to the functioning and planned generating and distributing companies, pointed to the inadequate results of the three stages, and disagreed over the fourth stage. Most of them are convinced that the new, private owners would raise the tariffs and that the resultant public discontent was very likely to upset the shaky domestic balance. After discussing the amendments to the Law on the Special Status of the Toktogul hydropower system, under which the most profitable of them were earmarked for privatization or concession to attract investments, the deputies passed the Law on the Construction of Kambarata hydropower stations. The Bishkek heat and power plant was removed from the Electric Stations public joint-stock company. The deputies postponed all discussion of the fourth stage of privatization in the power sector. They decided to return to issues related to concessions and trust management of the distribution companies and the Bishkek heat and power plant and/or to their privatization after careful analysis of the power companies and their results.

Today, the Ministry of Industry, Energy, and Fuel Resources of Kyrgyzstan is thrashing out the questions of the work of the power companies. A competitive domestic market will not appear even when the Bishkek heat and power plant is removed from the Electric Stations public joint-stock company: the electric and heat energy it produces is much more expensive than hydropower; in fact hydropower prices are quite competitive on the wholesale Central Asian market.

Competition on the retail power market will appear when electric power sales are separated from power distribution. Their economic nature will allow the marketing companies to become the legal agents of the power market: they will compete for contracts between the users and sellers of electric power. This means that the user will be free to select the agent that will take care of deliveries and

control the sides' obligations. The marketing companies can either sign contracts with distributing companies or discontinue contacts with any of them. The bilateral agreements will allow the distributing companies to expect payments on time. On the other side, the users will complain not to the distributing, but to the marketing company, which, in turn, will control the quality of supplies.

This means that the power market will acquire a new coordinating and regulating entity. Its conscientious work will help the marketing companies to improve their financial status and find money for reconstruction and high technologies. The distributing companies will finally pay their debts to the NEGK and ES public joint-stock companies. The time has come to master a new level of contract relations and realize that unfulfilled obligations are fraught with property, administrative, and criminal responsibility. All the power companies should improve their administrative system and introduce the latest management methods.

2. Power Projects and Prospects of Interstate Cooperation

To make the developments in the power sector more effective, the Government of the Kyrgyz Republic passed Decision No. 71-r of 15 February, 2006 and Decision No. 310-r of 10 June, 2006 on elaboration of the National Energy Program of the KR for 2006-2010 and the Strategy of the Fuel and Energy Complex until 2025 (NEP). It was ready on time, by 1 November, 2006; the government, however, failed to discuss it within the stipulated period. The Ministry of Industry, Energy, and Fuel Resources, which appeared in the new Cabinet in February 2007, discussed the draft and, in July 2007, passed it on to the government.

This document identifies the aims, tasks, and main trends of the state's medium- and long-term power policy and the mechanisms for its realization. In the medium-term, it is necessary to improve the sector's financial status, restore balanced and integrated development, achieve steady advance, and improve the institutional, tariff, and investment policies.

In the long-term perspective, the government is resolved to ensure energy and ecological safety and power and budget efficiency.

To achieve this, the country should acquire a clear idea of the main elements of its power policy: effective management of state power resources, development of domestic fuel and energy markets, as well as maintenance of a rational fuel and energy balance. The country needs substantiated regional and foreign policies in the power sphere, as well as a socially oriented policy and technological innovations in the fuel and energy sector.

The NEP has identified the following power projects as priorities: Kambarata-2 hydropower station with an installed capacity of 360 MW and Kambarata-1 hydropower station with an installed capacity of 1,900 MW built higher than the Toktogul hydropower system. The investments are assessed at the \$2.2 billion level. There are also plans to add two hydropower stations with a total capacity of 200 MW to the Verkhne-Narynsky Cascade (assessed cost of \$200 million). It is expected that by 2015-2025, under favorable investment conditions, a hydropower station will appear on the Saryjaz River with a total installed capacity of 1,000-1,200 MW or even more, it will cost over \$1 billion (see Table 1). The Bishkek heat and power plant-2 with a capacity of 400 MW and a thermal power plant with a capacity of 1,200 MW at the Kara-Keche coalmines, which will cost \$1.1 billion, are regarded as alternatives for adding base power to the country's power system.

The newly commissioned capacities will bring power production up to 17.094 billion kWh a year by 2010 and to 38.57 billion kWh by 2025. The planned facilities, schedules, and power production are shown in Table 2.

Table 1

Forecast of Commissioning Generating Sources for the Period up to 2025

Name	Installed capacity (MW)	Construction dates (years)	Cost (million dollars)
Kambarata-1 and Kambarata-2 hydropower stations	1,900	2010-2020	2,200
	360	2007-2012	280
Djilanaryk-1 and Djilanaryk-2 hydropower stations	200	2007-2010	220
Akbulun Hydropower Station	200	2010-2014	200
Saryjaz hydropower stations	1,200	2010-2025	1,200
Kavak State District Power Station	1,200	2008-2015	1,100
Total			5,200

Table 2

Forecasted Power Production in the KR by the Commissioned and Planned Power Stations (billion kWh)

Name	2005	2010	2015	2020	2025
Nizhne-Narynsky Cascade of hydropower stations	13.706	14.547	14.547	14.547	14.547
Bishkek and Osh heat and power plants	0.881	1.077	1.584	1.836	2.128
Small hydropower stations	0.0846	0.450	0.650	1.0	2.2
Non-traditional renewable energy sources	0.015	0.020	0.025	0.030	0.045
Kambarata-1 and Kambarata-2 hydropower stations			1.2	2.4	5.6
		0.4	1.1	1.1	1.1
Djilanaryk-1 and Djilanaryk-2 hydropower stations		0.6	1.2	1.2	1.2
Akbulun Hydropower Station			0.75	0.75	0.75
Saryjaz hydropower stations			1.8	3.6	5.4
Kara-Keche Thermal Power Plant			5.6	5.6	5.6
Total power produced by hydropower stations	13.805	16.017	21.272	24.627	30.842
Total power produced	14.686	17.094	28.456	32.063	38.57

In the forecasted period small hydropower stations will be added to the republic's total power producing capacities; the total capacity of the small stations will be 178 MW, they will produce over 1 billion kWh a year; the projects will cost \$200-220 million.

The increased capacity and power production will require adequate trunk power lines (220-500 kV); this will be done by improving the South-North lines (500 kV) in the republic's power system. Increased power transmission to the North will require a new main substation of 500 kV (the Kemin substation of 500/220 kV with a South-North high voltage transmission line of 500 kV) that will in the future be connected to the Kambarata hydropower stations.

To develop the main electric networks in the republic's south and decrease its dependence on its neighbors, it was decided to build the Datka substation of 500/220 kV, which would be connected to the already functioning high voltage 500 kV Toktogul hydropower system-Lochin (Uzbekistan) line to be used for power transmission from the Nizhne-Narynsky Cascade. As soon as the Datka substation is completed, the 220 kV networks (total length 360 km) will be reconstructed. In 2006-2010, the Improvement of Power Supply to the Batken Region will be completed; it demands \$335 million in investments.

The supply-demand correlation or the forecasted power balance testifies that the power sector's development strategy will cover the future increased needs in power in the real economic and communal sectors and will boost the sector's export potential:

- Under the first scenario—to 3.2 billion kWh by 2010; 15.8 billion kWh, by 2025;
- Under the second scenario—to 3.2 billion kWh by 2010; 11 billion kWh, by 2025.

3. Strategic Tasks of Interstate Cooperation

It has been estimated that in the medium-term (2007-2010) the republic will need about \$930 million to develop its power sector, the assessment for the long-term period (2011-2025) is \$5-6 billion. The figures are too high for the republic with a GDP of slightly over \$2.5 billion and a foreign debt of \$2.1 billion. This means that private investments, interstate cooperation under the already signed agreements and involvement, on an equal footing, in setting up a power and power-generating capacities market within the United Energy System (UES) of Central Asia and the CIS, as well as cooperation with the power systems of the South Asian countries, are the only option.

Today, and in the long-term perspective, the Russian Federation, which is building Kambarata-1 and Kambarata-2 hydropower stations, and China, which is involved in building hydropower stations on the middle reaches of the Naryn and Saryjaz rivers and the Kara-Keche thermal power plant, will remain the most probable partners in the republic's hydropower industry and power exports. If completed on time, they will increase the amount of exported power.

Kazakhstan and Uzbekistan, the power-balanced countries in the region, might be interested in buying peak power from the Kambarata stations in wintertime.

South Asia looks promising as a power market: it might be interested in buying peak power in summertime when the Nizhne-Narynsky Cascade works for irrigation. The accompanying power not needed in Kyrgyzstan could be sold through the United Energy System of Central Asia to Tajikistan and further on to Pakistan, which by 2010 will be short of up to 5,500 MW. Power from independent energy producers was bought for 5.6 cents per 1 kWh, the average power tariff. According to preliminary estimates, power will cost 3 cents per 1 kWh (when the hydropower projects in Kyrgyzstan are completed). This means that if the country exports 10 to 15 billion kWh, it will earn \$25-45 million every year.

When the Central Asian Cooperation Organization merged with EurAsEC, and when Uzbekistan joined it, the EurAsEC members deemed it necessary to discuss and create mechanisms of coopera-

tion in the sphere of water and power regulation. To achieve this they have already drafted the Conception of Efficient Use of Central Asia's Water and Power Resources and the Road Map of the Cooperation Mechanism among the EurAsEC Members in Water and Power Regulation in the region. The principles of cooperation and its aims are rooted in the Treaty of Parallel Functioning of the CIS Power Systems of 25 November, 1998 and the Agreement on Power Transit and Capacities of the CIS Members of 25 January, 2000 signed by the Council of the CIS Heads of State.

To achieve integration according to the international legal standards of water use with due account for the Central Asian specifics, all the related issues should be discussed on the basis of the drafted Conception and elaboration, coordination, and signing of the amended long-term Intergovernmental Agreement on the Use of Syr Darya Water Resources of 17 March, 1998. This work has been in progress since 2006. The drafts have already been discussed by experts of the EurAsEC members and declined as needing coordination with the plenipotentiary representatives of all the members.

The currently drafted Agreement on the Naryn-Syr Darya Basin, which is expected to develop the power resources market, should contain provisions of its long-term nature, as well as direct admissions by Kazakhstan and Uzbekistan of their duty to pay for annual and long-term water accumulation services. Today, Kyrgyzstan is carrying a burden that is too heavy for its economy. The new Agreement should also envisage a more efficient mechanism for settling disputes and disagreements through international arbitration.

Today, the EurAsEC members that signed the Plan of Concerted Actions to create a common energy market (endorsed by the EurAsEC Interstate Council on 28 February, 2003) are drafting a Strategy for Development of the Fuel and Power Complexes up to 2020. It is expected that the Strategy will identify well-substantiated priority measures and the stages and milestones on the road toward a Single EurAsEC Power Expanse. The document will also deal with the scientific-technological, social, economic, and other aspects of the emerging common power market, rational use of the fuel and power resources, energy security of the CIS countries and their development, regulation of the CA regional water and power resources, and improvement of the regulatory and legal framework of interstate relations.

The following important international documents contain the principles of the common energy market: the European Energy Charter of 17 December, 1991 and the Energy Charter Treaty of 17 December, 1994 enacted in 1997. The Treaty identifies the basic principles of power trade, cooperation in the energy sphere, energy efficiency, and environmental protection. These documents signed by five Central Asian states were ratified by three of them (Kazakhstan, Kyrgyzstan, and Uzbekistan).

If observed, the basic principles of trade in the energy sphere will help to implement the energy strategy of the Central Asian countries, which includes thermal power stations in Kazakhstan and Uzbekistan, large hydropower stations in Kyrgyzstan and Tajikistan, a wholesale energy market, and an energy pool or energy and power-generating capacities stock exchange in Central Asia. The UES of Central Asia represented by its executive and technological structure, United Control Center Energia, should stick to objective principles and develop into an independent systemic operator of the region's wholesale power and power-generating capacities market; it is also expected to ensure parallel functioning of the UES of Kazakhstan and Russia.

Cooperation with Gazprom of Russia (under the Memorandum of Intent to set up a Russian-Kyrgyz JV together with the Kyrgyzgaz and Kyrgyzneftegaz public joint-stock companies) will make it possible to supply the Kyrgyz economy at some time in the future with 800-850 million cu m of imported natural gas every year.

Fully-fledged interstate entities able to rationally use the region's fuel, energy, and power resources, to ensure sustainable power and water supply, and to carry out long-term investment policies should be created as an important cooperation mechanism.

In November 2004, at the Dushanbe summit, the heads of state signed an agreement on the International Water and Energy Consortium of the Central Asian countries and Russia. This will make it possible to deal with the Kamarata hydropower project and its commissioning as a power-generating unit coordinated with the Toktogul hydropower system as an irrigation unit in a way acceptable to the Kyrgyz Republic. Russia intends to fund part of the Kamarata project and is interested in hydraulic equipment supplies.

The International Consortium may develop into a financial and insurance mechanism able to guarantee sustainable water and power exchange under corresponding agreements. It will also supply the means and instruments needed to pass adequate decisions. Water discharge from the reservoirs as well as fuel and power supplies should be based on mutual settlements in hard currency realized according to the "state-consortium-bank" scheme. Mutual settlements in hard currency and financial monitoring will guarantee that the resources are supplied on time.

The countries should take firm and absolutely clear positions at the multilateral interstate talks on the use of water and energy resources and the reimbursement of expenses related to irrigation water supplies. This will promote joint large-scale investment projects and investment attractiveness of the Kamarata hydropower project. To succeed, Kyrgyzstan should pay adequate attention to its "energy" diplomacy and work hard to establish long-term interstate contacts in the energy sphere.

REGIONAL POLITICS

**REGIONAL COOPERATION
IN CENTRAL ASIA
AS SEEN FROM UZBEKISTAN**

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

The UNDP report for 2005¹ described the Central Asian economies of Soviet times as closely connected with the rest of the Soviet Union at the expense of their cooperation with the outside world. There is the opinion that the considerable investments of the Soviet period in physical infrastructure and human capital have somewhat improved the standard of living in this part of the Soviet world. The improvements, however, arrived with devastating effects on the environment and the region's culture.

In 1991, the new states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uz-

bekistan) with a total population of about 60 million rose from the ruins of what was once called the Soviet Union. The squabbles among some of these Soviet successor-states undermined regional trade and damaged the water and energy systems.

Here I have undertaken an analysis of two important aspects of regional cooperation—trade and energy—using Uzbekistan and Tajikistan as examples. The main question is: What is interfering with closer regional cooperation in both fields and what should be done to improve the situation.

To move forward the Central Asian economies should use their advantages and turn them into development factors:

- (a) the communicational, transportation, and energy infrastructure inherited from

¹ See: *Central Asia Human Development Report 2005* by the UNDP Regional Bureau for Europe and the Commonwealth of Independent States, Bratislava, Slovak Republic, 2005.

the Soviet Union makes a coordinated regional approach indispensable;

- (b) ecological problems call for concerted regional efforts;
- (c) the region's potential attractiveness for foreign and local investors who would rather operate in regions free from trade and transit barriers than in small and limited economies;
- (d) regional cooperation is badly needed to move to the world markets to promote the region's further integration into the world economy.

After looking into two aspects of regional cooperation (trade and energy), I discovered that the road toward wider cooperation was blocked. In regional trade:

- The ability to cooperate with neighbors depends on the development level of the country's market economy and the mechanisms of democratic administration. So far, these factors remain undeveloped in Central Asia, which interferes with successful regional cooperation;
- Different economic strategies result in different trade policies, which interferes with regional cooperation;
- The Regional Trade Agreements among the Central Asian republics normally

apply to a very limited range of commodities and are too complicated with respect to the commodities' origin. For these reasons the majority of them remained on paper;

- The trade barriers are too high, while protectionism is too severe: customs tariffs are relatively low, while the Central Asian countries are using other instruments, often in an arbitrary and non-transparent manner, to regulate trade: additional taxes on imported products from which locally produced goods are exempt or at least much higher tax rates than those applied to local products, a ban on the export of certain categories of goods, etc;
- The level of trade complementarity among the Central Asian republics is very low.

In the energy sector:

- The Uzbek and Tajik governments tend toward self-sufficiency, a policy that limits or even undermines potential cooperation;
- The distorted system of energy prices does nothing to promote greater cooperation between the two countries; and finally
- Payment defaults.

Regional Cooperation: Benefits and Advantages

There is an agreement among those who specialize in the international economy that trade is almost always mutually advantageous. Krugman and Obstfeld have written: "The range of circumstances under which international trade is beneficial is much wider than most people imagine."² Textbooks on the international economy are zealously driving home the idea that mutually beneficial trade is possible between a more efficient and a less efficient country, whereby the producers of the latter

² P.R. Krugman, M. Obstfeld, *International Economics: Theory and Policy*, 6th edition, Addison-Wesley, 2003, p. 3.

remain afloat only by paying lower wages. This fully applies to Central Asia: the five landlocked Central Asian countries may profit if and when they remove the barriers to the free movement of people, goods, and knowledge inside the region and throughout the rest of the world.

The UNDP report for 2005 states that greater cooperation among the Central Asian republics will produce greater gains by reducing trade costs, increasing remittances from migrant workers, and improving water and energy use. The experience in other parts of the world proves that regional cooperation helps to fight poverty, while the absence of cooperation makes the poor even poorer. The UNDP report points out, among other things, that opening up borders or reducing trade costs is not enough. Much depends on the business climate and the quality of financial services. Indeed, international experience has confirmed that corruption should be uprooted and the civil service improved, while the governments should become more transparent and more open. Martin Spechler writes that civilian machine-building should be revived together with open access to neighboring markets—otherwise it makes no sense.³ The Asian Development Bank has pointed out that to achieve sustainable economic development of their relatively small economies, the Central Asian republics should promote trade and close integration into world trade.⁴ As a landlocked region far removed from the major seaports, Central Asia should concentrate on regional cooperation to a much greater extent than other regions of the world. This means that the Central Asian countries should serve as transit territories for their regional neighbors wishing to reach major seaports. Trade inside the region is another option that cuts down transportation costs needed to move goods to rich yet remote markets.

There are numerous “non-economic” factors which facilitate regional cooperation: linguistic and cultural similarities, as well as Islam as the shared religion. In pre-Soviet times, the “-stans” remained practically undivided, which means that the local nations have a common past as well.

Multilateral institutions, donor agencies, bilateral aid programs, and a number of other regional organizations are doing a lot to promote regional cooperation, but many observers have to admit that the post-Soviet progress toward regional integration has been very modest. There are barriers that interfere with trade in general and trade in electric power in particular; there are also obstacles of an “institutional” nature that negatively affect regional cooperation as a whole. The UNDP report for 2005 points out in this respect that “a country’s ability to cooperate fully with its neighbors depends on the nature of its internal institutions, regulatory system and governance culture. A nation with sophisticated market institutions is better able to engage in regional economic integration. A country with a more open, and democratic culture can build stronger cross-border ties than one with a less open, more autocratic political culture and institutions.”⁵

Regional Trade Cooperation

As part of the Soviet Union, the Central Asian republics were part of the all-Union Moscow-managed trade process that most of the time ignored resource efficiency, pricing, and transportation

³ See: M. Spechler, *Regional Cooperation in Central Asia: Promises and Reality*, Indiana University-Purdue University Indianapolis, 1998, p. 4.

⁴ See: *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, Asian Development Bank, Philippines, 2006.

⁵ *Central Asia Human Development Report 2005*, p. VI.

costs normally taken into account in market economies. Moscow was responsible for foreign trade too. It was only as independent states that the Central Asian republics and their products acquired access to the world markets. As parts of the Soviet Union none of the Central Asian countries could control its economy and foreign trade. Kazakhstan's government, for example, says that before 1991, 90 percent of its industry was controlled by the Moscow-based ministries, which means that as an independent country Kazakhstan lacked the expertise needed to shape and develop industrial policies, run state-owned enterprises, and be engaged in foreign trade.⁶ This means that Uzbekistan and its Central Asian neighbors had to create sovereign states and set up state bodies to control their national economies⁷ before starting their reforms and finding their places on the world market. The process was slowed down by the practically non-existing ramified transportation infrastructure and trade contacts, as well as by the limited competitiveness of local products on the world markets and the weak local currencies. Some of these obstacles were removed; some of the limitations were partly removed, which largely decreased (according to the UNDP report for 2005) the share of the former Soviet republics in the Central Asian countries' trade.

Harmonized trade and customs regulations, open borders, and better cooperation in power production and the use of natural resources will bring the greatest benefits to each of the countries. My interviews with several existing and potential foreign investors in Uzbekistan revealed that the country's, and the region's for that matter, attractiveness for foreign investors could have been much higher had the region been a single economic area without borders, visas, and customs barriers. The interviewed investors pointed out that Central Asian trade as well as the region's trade with the rest of the world suffered because of protectionism, difficulties on the borders, the visa regime, and transportation problems. The interviewed businessmen, in turn, pointed out that region's 60-million strong consumer market looked much more attractive and made more sense than the fairly limited markets of each of the Central Asian countries.

The ADB report⁸ points out that in Central Asia, which is a landlocked region, liberalization of trade policy and regional cooperation in transport and customs sphere are mutually dependent issues. Progress in any one of these areas will produce but a limited positive effect in the absence of progress in the other spheres. Liberalization of trade policy, for example, in Central Asia and the neighboring states, will do next to nothing to boost bilateral trade in the limited transit systems or in the absence of a developed transportation infrastructure that will hamper the movement of transportation means and commodities.

The Table shows that the share of intra-regional trade in the foreign trade of the Central Asian republics is relatively small; we should bear in mind, however, that a larger part of intra-regional trade remains unrecorded.

The Table shows that the smaller Central Asian economies (the Kyrgyz Republic and Tajikistan) are more dependent on regional trade than the larger economies (Uzbekistan and Kazakhstan).

The UNDP 2005 report points out that trade between the Central Asian countries remains relatively limited even though the countries have somewhat restored their economies compared with the early independence years. Statistical error is not excluded: regional trade is less carefully recorded than foreign trade, but the actual level of intra-regional trade is low. The ADB explains this by the low trade complementarity level and trade barriers. Kazakhstan, for example, can potentially

⁶ See: J. Henley, *Restructuring Large Scale State Enterprises in the Republics of Azerbaijan, Kazakhstan, the Kyrgyz Republic and Uzbekistan: The Challenge for Technical Assistance*, University of Edinburgh, Edinburgh, 1995.

⁷ See: B. Islamov, "State-Led Transformation and Economic Growth in Central Asia: From Plan to Industrial Policy," *Hitotsubashi Journal of Economics*, No. 39 (2), December 1998, p. 102.

⁸ See: *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*.

**Share of Intra-Regional Export and
Import of the Central Asian Republics,
1999-2004**
(percentage of total merchandise exports/imports)

Country (export/import)	Year					
	1999	2000	2001	2002	2003	2004
Kazakhstan (export)	3.4	3.3	4.3	3.8	3.7	4.2
Kazakhstan (import)	3.6	2.3	2.0	2.1	2.0	2.6
Kyrgyz Republic (export)	22.6	26.6	20.1	16.6	16.2	17.5
Kyrgyz Republic (import)	27.1	24.6	32.2	32.4	29.8	27.4
Tajikistan (export)	27.5	13.6	14.2	10.9	9.5	8.1
Tajikistan (import)	55.2	50.2	40.6	34.8	36.1	37.8
Uzbekistan (export)	9.7	8.3	9.2	8.0	6.6	10.6
Uzbekistan (import)	6.7	11.7	8.8	8.3	8.1	7.5

Source: Asian Development Bank.

absorb a relatively large proportion of the exports of Kyrgyzstan and Tajikistan and increase its share in their import, both countries are responsible for tiny fractions of Kazakhstan's import and export operations. The profiles of Kyrgyz imports and Tajik exports have very little in common, which means that these countries may find more trade possibilities with distant, dissimilar, and hence complementary economies, if they can overcome the barriers on their way to the world markets. Regional trade and trade with the rest of the world will depend on regional cooperation, which may reduce trade costs.

Cooperation between Uzbekistan and Tajikistan in the Energy Sector

Today Uzbekistan is still Central Asia's largest power producer and net exporter with a total installed generation capacity of 12,300 MW or about 50 percent of the power-generating facilities of the Integrated Power Grid of Central Asia. The branch produces up to 48 billion kWh of energy and over 10 million Gcal of heat energy every year.

To ensure energy supply to the industrial and housing sectors and to create favorable conditions for the country's sustainable and effective development, the power-generating facilities of Uzbekenergo should be increased and reconstructed.

The Tajikistan Energy System's installed capacity is 4,354 MW. The annual average power generation of the hydropower plants is 15-17,000 Gcal. The Nurek hydropower plant with 3,000 MW installed capacity, the biggest in Central Asia, has a seasonal-storage reservoir and operates in the irrigation regime at the beginning and in the middle of the growing season to satisfy the needs of Kazakhstan and Uzbekistan. This means that Tajikistan has to buy energy from Uzbekistan, Turkmenistan, and Kyrgyzstan; its energy system suffers of winter shortages and summer surpluses within the range of 1 to 1.5 kWh. The Soviet system of energy exchange is no longer viable: under Soviet power the republics that shared the Amu Darya's water were involved in water and energy transfers directed, as many other things, from Moscow. Tajikistan received Turkmenian and Uzbek gas in exchange for electricity produced in the summer, as well as electric power from Uzbekistan in the winter. In the post-Soviet years, the countries replaced the old barter system with trade, which means that Tajikistan has to import energy and gas from Uzbekistan. The UNDP 2005 report has pointed out that during the years of independence, the Soviet water and energy exchange arrangement was undermined by the local nations' divergent interests. Kyrgyzstan and Tajikistan, the upstream countries, use the water of the Amu Darya and the Syr Darya (two main regional rivers) for generating electricity, especially in winter. The downstream countries (Kazakhstan, Turkmenistan, and Uzbekistan) prefer to have maximum access to water for irrigation in the summer months; they try to avoid the floods caused by winter water releases. To cope with the diverse interests, the Central Asian governments concluded bilateral and multilateral agreements that determine the quantities and costs of the exchanged water and energy resources (coal, electricity, and gas).

Bilateral trade, however, is not proceeding smoothly: in the past, Uzbekistan cut gas supplies to Tajikistan in an effort to force it pay its gas debts; in addition, gas supplies from Uzbekistan are faulty because of low pressure in the pipelines.

In an effort to reduce its energy dependence on Uzbekistan, Tajikistan is currently looking into the potential of its huge hydropower resources: today, only 10 percent of them are used. The republic is actively working on two hydropower projects started in Soviet times and abandoned in the post-Soviet period. According to former minister of energy of Tajikistan Nurmakhmatov, capital investments of about \$2 billion into the Rogun and Sangtuda hydropower stations will allow the country to export at least 10 billion kWh every year in the next 5 to 7 years. These stations will increase operational power generation in Tajikistan to an annual level of 31-33 billion kWh. Uzbekistan is not happy: if implemented these projects might decrease the amount of irrigation water that reaches the republic every summer.

This means that closer regional cooperation, which will lower the prices, is highly advantageous and badly needed: Kazakhstan and Uzbekistan, for example, will be able to buy power generated by the existing hydropower stations of Kyrgyzstan and Tajikistan in the summer at lower prices, rather than generating power at their thermal power stations at much higher costs. This calls, however, for much greater transparency in the energy sectors of all the countries.

In fact, Central Asia's energy export potential is sufficiently high: it may sell its energy to Pakistan and Iran, where the demand for energy reaches its highest in the summer. This coincides with the peak power production in Central Asia. Kyrgyzstan and Tajikistan may profit from this more than their neighbors; Uzbekistan and, to some extent, Kazakhstan can export thermal energy in the winter, and profit as transit countries and energy traders. The World Bank Report of 2004⁹ suggests that the Central Asian republics should conclude an intra-regional agreement on power transit to gain access to the export markets. New major power-generating projects in Central Asia will only be profitable if the producers gain access to extra-regional export markets.

⁹ See: *Central Asia Regional Electricity Export Potential Study*, Europe and Central Asia Region, The World Bank, Washington, DC, 2004. Mimeo.

In 2001, the ADB allocated a loan for a Regional Power Transmission Modernization Project to promote regional cooperation in the power sector on the condition that Uzbekistan and Tajikistan sign a new type of power trade agreement.¹⁰ The agreement, however, was never approved and the loan was cancelled.

The power trade agreement fell through together with the loan because:

- There was no financial framework to be used to settle those transactions which involved money (U.S. dollars) rather than barter;
- There were no bank guarantees for the dollar-based transactions, which would have created problems with currency exchange;
- There were fears that the sides might fail to pay;
- The sides obviously preferred to protect their energy security.

C o n c l u s i o n

The UNDP report for 2005 says that no consensus and no follow-up actions conducive to regional cooperation and integration can be achieved overnight. Noticeable progress in regional cooperation and integration might take years, and even decades, to be completed: there are too many obstacles of a political and institutional nature on the way. We all know that similar efforts elsewhere in the world required much time.

To achieve regional cooperation in Central Asia we should concentrate on improving the trade regime in the local countries and coordinate them with their movement toward WTO membership; the market economy and democratic institutions should receive their share of attention, while trade and customs policies should be harmonized; and trade barriers (additional taxes on imported goods from which local products are exempt, higher tax rates for imported goods, and bans on some exported products) should be liquidated.

Uzbekistan and Tajikistan obviously need a strong negotiator/broker to help them come to terms in the power sector. If Russia can demonstrate its impartiality toward both sides, it could play this role. Both countries will obviously profit from cooperation in the power sphere. At the same time, they should be forced to trim their energy-related self-sufficiency somewhat, readjust the so far distorted prices, and do something about the threat of repeated failures to pay.

¹⁰ See: *Report and Recommendation of the President to the Board of Directors of Proposed Loans to the Republic of Tajikistan and to the Republic of Uzbekistan for the Regional Power Transmission Modernization Project*, Asian Development Bank, Manila, 2002, RRP: TAJ/UZB 35096.

LIMPING ON TWO LEGS: UYGHUR DIASPORA ORGANIZATIONS AND THE PROSPECTS FOR EASTERN TURKESTAN INDEPENDENCE

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

“Walking on two legs” (*liangtiaotui zoulu*), that is trying to promote two policies, often contradictory, at the same time, is a Chinese political term and as such may not be very popular among Uyghurs. Nonetheless, it is the best expression I can use to define the current state of the Eastern Turkestan independence movement—in a positive, rather than a negative sense. Apparently, this expression denotes a split or a break. Indeed, the Uyghur Diaspora has been divided into a number of organizations and associations that have been established throughout the years, especially since the early 1990s. They held a number of congresses and other meetings and managed to place the issue of Eastern Turkestan independence on the international agenda using advanced communications media, petitions and demonstrations and personal activism. Yet, their actual success has been quite limited primarily—but by no means only—due to repeated splits and internal rivalries. Attempts to create a universal, acceptable, representative and powerful organization that would provide an umbrella for all the other particular associations and that would have an international impact and a recognized world leader (similar to the Dalai Lama), had by and large failed.

This situation was supposed to have changed in April 2004 when a new umbrella organization called the World Uyghur Congress was formed. It was meant to unite the different Uyghur communities and associations all over the world under one unified, recognized and acceptable leadership, something the movement lacked after the death of its lifelong Isa Yusuf Alptekin in 1995, if not before. Just a few months later, however, in September 2004, another umbrella organization emerged in Washington: the Republic of East Turkistan Government in Exile. Since then, the Eastern Turkestan nationalist movement has been “walking on two legs,” and perhaps more—since not all Uyghur associations throughout the world joined either of these new organizations. Moreover, during my meetings with expatriate Uyghurs in 2004-2005 I could sense the tension between the followers of these two “headquarters” that seemingly opted for two different solutions in addressing the Eastern Turkestan independence problem. While the former is ready to compromise and settle for democracy and self-determination (explicitly) and increased autonomy (implicitly), the latter would not accept anything less than complete independence. This bifurcation has again reminded me of another typical Chinese term,

“struggle between two lines” (*liangtiao luxian douzheng*) such as “right” and “wrong,” “correct” and “incorrect,” “advanced” and “backward.” Is this ideological, political and organizational split harmful for the Eastern Turkestan nationalist cause, as many believe? Are these two organizations mutually exclusive? Is one solution better than the other in promoting the Uyghur nationalist cause? In this article, after providing some background, I try to answer these questions and

to introduce an outsider’s perspective on the prospects of the two-headed Uyghur nationalist movement based on a provisional analysis and compared, in a preliminary way, to other national liberation movements.¹

¹ Research for this paper and meetings with expatriate Uyghurs were facilitated by a MacArthur Foundation grant, No. 02-76170-000-GSS, on “Uyghur Expatriate Communities: Domestic, Regional and International Challenges,” for which I am grateful.

I

While its origins go back to the mid-18th century when the region known since then as Xinjiang had been occupied by China’s Qing Dynasty, what is known today as the Uyghur Diaspora has been gradually created since the late 19th century when members of a Muslim-Turkic nationality, later known as Uyghurs, escaped from the bloody Hui (Muslim) rebellions in Xinjiang and began to settle in Russian Central Asia.² Following the Russian Revolution Uyghurs began migrating to other countries, mainly to Turkey and to Saudi Arabia. In addition to Central Asia—where the majority of the Uyghur Diaspora is still located—smaller Uyghur communities are now scattered all over the world. Suppressed at home by the People’s Republic of China (PRC), the Eastern Turkestan national independence movement had begun to take shape outside China by the mid-20th century, led first by Mehmet Emin Bughra and, after his death in 1964, by Isa Yusuf Alptekin. Based in Turkey, both, but especially the latter, should be credited for having done their best to keep the quest of Eastern Turkestan independence alive, though they had achieved little else. In spite of their efforts, writings and frequent meetings with international leaders and organizations, Uyghur communities, both inside and outside China, have never been regarded by the media, the public and academics, as a national liberation movement that has the right for self-determination. This was odd, to say the least, given the two most significant international phenomena of the 1960s: Asian-African decolonization processes and the hostility toward the Chinese by both West and East. Under those circumstances, the Western world, as well as the Islamic countries and the Soviet Union should have shared a common interest in underwriting the Uyghur cause and in supporting the goal of Eastern Turkestan independence, each for its own reasons. But they did not. Except for a few ineffective statements by Third World leaders and the Soviet manipulation of Central Asian Uyghurs against China, practically nothing was done to actually promote Eastern Turkestan national independence until the 1980s. Why? Is this failure an outcome of subjective Uyghur shortcomings or of objective international constraints? As it turned out, both were responsible.

To begin with, the world situation was not conducive to upholding Eastern Turkestan independence in those years. Isolated from the two superpowers, and from most of the international community including the United Nations and international organizations, China was practically and paradoxically immune to external pressure. There were no ways to penalize the Chinese for their harsh ethnic policy; to compel them to improve their behavior or to reward them if they did. Also, for all the hos-

² See: K. Hodong, *Holy War in China: The Muslim Rebellion and State in Chinese Central Asia, 1864-1877*, Stanford, 2004.

tility against China and Chinese revolutionary radicalism, Beijing's sovereignty over Xinjiang has never been officially contested or challenged even by those governments that had withheld their diplomatic recognition of the PRC. Needless to say, all other governments—without exception—that legally recognized the PRC, have by implication and simultaneously always recognized Xinjiang as an integral part of China—and they still do. Moreover, Beijing used to be the self-proclaimed champion of national liberation movements throughout the world, especially in the 1960s, and it would have been very difficult at that time to cast the Chinese as colonialists themselves. Also, in those years the West, and definitely the Soviet Union, were not terribly interested in human rights violation, in religious persecution or in separatist activities. Basically, besides remote academic circles, little was known about Uyghurs, their history, culture and their obscure nationalist claims. Indeed, mainstream modern China studies had just begun to emerge and the communications media were limited and hardly accessible to many so that the East Turkestan nationalist message—if there was any at all—could not be delivered to a widespread audience.

However, these objective constraints provide only one half of the explanation for the weakness of the Eastern Turkestan national movement in those years. Headquartered in Turkey, the “movement” consisted of few organizations with even fewer links to other groups, primarily those active in Soviet Central Asia. To some extent, the low-key operation and standing of the Eastern Turkestan independence movement abroad was a reflection of Beijing's low-key response to Uyghur national separatism at home. Having crushed the surviving remnants of Eastern Turkestan rebels in the early 1950s and having largely “pacified the west” (*anxi*) thereafter,³ Beijing did not treat Uyghur separatism as a serious threat at least until the 1980s. To be sure, there were a number of violent confrontations, especially in the early 1960s; however, the so-called Eastern Turkestan nationalist movement was at best a local nuisance, if at all. If Beijing was aware of external dimensions of Eastern Turkestan separatism, they were overlooked. In those years the problem of the movement was not that it had one leg or two legs but that it had no legs at all.

II

Many of these constraints were removed since the early 1980s. Most important, since Mao's death Beijing adopted an Open Door policy that has led to a greater interaction with the international community, to active participation in international organizations and to a greater exposure to international norms—for the first time in its history. At the same time, China began to increase its pressure on nationalities so as to guarantee its continued control of the periphery even, and especially, under the new conditions of “openness.” Under these circumstances, Uyghur identities (ethnic, political, social, religious, economic, international, etc.) in general and “Uyghur separatism” in particular, have become a primary target for this ongoing crackdown, unprecedented even in Mao's time. In fact, some of my expatriate Uyghur colleagues admitted that Mao's treatment of Uyghurs, while by no means being positive, had still been more decent and fair compared to Deng Xiaoping's. An interesting research on Chinese ethnic historiography that is still under way at the University of Haifa tries to provide an explanation. It appears that in Mao's time Uyghurs had been considered a *legitimate* minority nationality separate from the Han, and had been treated as such. Post-Mao Beijing, however, has been treating Uyghurs as an *illegitimate* nationality that should be incorporated into “China” and the Han. This is evident in the way non-Han nationalities are portrayed in official Chinese textbooks in the 1950s and 1960s, compared to the 1980s and 1990s. Therefore, Uyghur persecution—that had been resumed

³ See: *Xinjiang pingpan jiaofei* (The Suppression of Bandits in Xinjiang), ed. by Zh. Yuxi, Urumqi, 2000.

in the 1980s—has increased by China following the collapse of the Soviet Union and the emergence of the Central Asian republics as independent entities in the early 1990s. Also, Beijing's harsh ethnic policy has begun to attract the attention of the international community. Western governments, parliaments, the United Nations and NGOs—that have become more aware of human rights violations and nondemocratic practices in general—have now turned to and focused on China. This increased Uyghur persecution at home—and the new opportunities that emerged abroad—have led to the awakening of the vision of Eastern Turkestan independence and to the creation of a number of organizations and associations aimed at promoting this vision.

Loosely coordinated, these Diaspora organizations have time and again tried to create a headquarters that would formulate goals and policies acceptable to all. This proved difficult not only because of internal disagreements but also because the conditions in the host countries have deteriorated and become inhospitable—thereby undermining Uyghur attempts to promote their national cause effectively. Consequently, whereas most expatriate Uyghur “troops” have largely remained in their host countries, the headquarters of Eastern Turkestan nationalism has gradually and inevitably shifted farther away to the west—beyond China's reach—to host countries that not only *passively* displayed sympathy but could also translate passive sympathy to *active* support of the Uyghur cause.

III

Located in Central Asia, the first Eastern Turkestan nationalities and organizations—that had become gradually Russified anyway over the years—were from the very beginning subordinated to Soviet interests—determined less by any identification with Uyghur (or Kazakh) nationalism and much more by Moscow's territorial aspirations and its conflict with China. For these reasons, in the 1960s and 1970s Moscow exploited Uyghur nationalism and provided the Central Asian Uyghur communities and organizations with facilities aimed at undermining China (such as radio broadcasts and even military training). However, once the conflict was over and China has begun its upsurge as a major economic, political and military power, Moscow, and the newly independent Central Asian governments—now considerably weakened—have substantially adjusted to Beijing's policy by condemning “the three evils,” namely Uyghur “separatism,” Islamic “radicalism” and “terrorism.” As Chinese economic, political and military influence over Kazakhstan, Kyrgyzstan and Uzbekistan has begun to grow consistently, local Uyghur organizations—traditionally more militant than those in the West—have been facing considerable restrictions, hardships and persecution. Representing some 350,000-400,000 of their kin—the overwhelming majority of the Uyghur Diaspora—these organizations found it difficult, occasionally next to impossible, to operate, let alone to provide a universal leadership. It is under these circumstances that the center of Eastern Turkestan nationalism has gradually shifted westward to Turkey.

In fact, first the Ottoman Empire and then Turkey had become an inspiration and a model for Eastern Turkestani pursuit of cultural and political independence already since the late 19th century and a center for nationalist activism already since the early 1950s, if not before. Uyghur publications and organizations had prospered in Turkey which from the very beginning offered shelter, sanctuary and encouragement to hundreds and thousands of Uyghur refugees who had fled China either directly or indirectly. Hostile to China at that time, Ankara identified with the Uyghurs' plight, and with their vision of an independent homeland in Eastern Turkestan (Xinjiang), not only in the two decades before 1971—when it established diplomatic relations with the PRC—but even afterwards. The government provided the movement with office facilities, material and moral support and even funds and a

number of Turkish statesmen, politicians and officials supported the Uyghur cause in public. One of them was Recep Tayyip Erdoğan, the current Prime Minister who, as Mayor of Istanbul, honored Isa Yusuf Alptekin when he died, aged 95. This, however, was soon to end.⁴

By the mid-1990s, mainly in view of the changing regional and international situation, the Chinese had become considerably more sensitive to, and concerned about, Uyghur “separatism” at home and especially abroad. Consequently, in the mid-1990s Beijing began to apply growing pressure on Ankara to suppress the activities of organizations associated with the cause of Eastern Turkestan, often tacitly supported by the Turkish government itself. Forced by China and faced by its own Kurdish separatist challenge, Ankara has begun to restrict Uyghur national activism in Turkey. First attempts to set up an Eastern Turkestan headquarters to coordinate and supervise Uyghur nationalism worldwide, such as the Eastern Turkestan National Congress (or ETNC) were carried out and even succeeded, though not for long. Soon it has become clear that Turkey is no longer a safe and reliable base for the Eastern Turkestan nationalist movement. By that time, Germany had already become an alternative headquarters.

A number of Eastern Turkestan organizations had been established in Germany; most important among them are the Eastern Turkestan Cultural and Social Association, the Eastern Turkestan Information Center and the Union of East Turkestani Youth. These organizations have continued to enjoy German hospitality but their effectiveness was doubtful. While repeated Chinese attempts to convince Germany (and other European governments) to curtail East Turkestani nationalist activism have been firmly rejected, actual Uyghur achievements have been modest. They included a few statements made by foreign ministers; occasional speeches and remarks made by sympathetic members of parliament; some demonstrations; a number of interviews in the media and a good deal of information, messages and reports that has been circulated by using advanced communications networks, in particular the Internet.⁵ Remarkable as they are, these achievements have remained abstract and no *concrete* action has been taken against Beijing’s harsh treatment of Uyghurs, least of all for Eastern Turkestan independence. This was one of the main reasons why the center of East Turkestan nationalism has moved further west in a transatlantic leap to North America. This is where the buck stops.

A number of organizations that directly or indirectly embrace the Uyghur cause were established in North America in the second half of the 1990s. They include the Allied Committee of Eastern Turkestan, Inner Mongolia, Manchuria and Tibet; The Uyghur Human Rights Coalition; The International Taklamakan Human Rights Association; The Eastern Turkestan National Freedom Center; The Uyghur Information Agency; The Uyghur American Association and the Canadian Uyghur Association. Some of these organizations represent no more than letterheads and their activities have been very limited and mostly rhetorical. This was one of the main impediments of Eastern Turkestan nationalism: too many organizations, few actions and no effective center. By the early 21st century, some Uyghur leaders—primarily in North America—had become fed up with this situation and had realized it was about time for change. It is their misgivings that had led, after lengthy internal debates and preparations, to the creation of the World Uyghur Congress (WUC) in April 2004—ostensibly a merger between two central Uyghur organizations that had been active in Germany: the East Turkestan National Congress (established in October 1999) and the World Uyghur Youth Congress (established in October 1996). Altogether, Uyghur delegates from thirteen different countries participated in the

⁴ See: Y. Shichor, “Ethno-Diplomacy: The Uyghur Predicament in Sino-Turkish Relations” (unpublished manuscript).

⁵ See: Y. Shichor, “Virtual Transnationalism: Uyghur Communities in Europe and the Quest for Eastern Turkestan Independence,” in: *Muslim Networks and Transnational Communities in and Across Europe*, ed. by J.S. Nielsen, S. Allievi, Leiden, 2003, pp. 281-311 (see also: D. Gladney, “Cyber-Separatism,” Ch. 11 in his *Dislocating China: Muslims, Minorities and Other Subaltern Subjects*, Chicago, 2004, pp. 229-259).

meeting. Erkin Alptekin, Isa Yusuf's son and a former Secretary General of UNPO (Unrepresented Nations and Peoples Organization) was elected as WUC first president. Although his home is in Germany, where the WUC first conference was held, much of its leadership, motivations, spirit, and values, are very much North American.

IV

Apparently, the WUC represents a different conception, and a different leadership, for the promotion of the Uyghur cause. For one thing, it caters primarily for the national aspirations of Uyghurs who—unlike the Kazakh, Kyrgyz, Tajik, Uzbek, and Turkmen nationalities—still do not have an independent homeland of their own. The WUC uses the term “East Turkestan”—that does not single out Uyghurs—more in a geographical than in an ethnic sense. Also, the WUC founders—many of whom had left Xinjiang since the late 1980s willingly and legally—are younger, better educated, fluent in the languages of their host countries and highly pragmatic. While still eager to achieve an independent homeland in Eastern Turkestan (Xinjiang) they have realized that—under present internal and international circumstances—this is a dream that could hardly be accomplished for some time to come. To begin with, there is no way that China would give up unwillingly, let alone willingly, its control over Xinjiang. Moreover, although the West is much more interested in human rights than ever before, there is no way it would support separatism in Eastern Turkestan, or elsewhere. For one reason, quite a few Western countries are themselves facing separatist threats and would by no means approve of Eastern Turkestan separatism. For another, all Western governments, with no exception, recognize China's territorial integrity and sovereignty within its official borders and even beyond (by implicitly acknowledging Beijing's claim over Taiwan). Furthermore, as the PRC's economic, political and military power continues to grow consistently, steadily and quickly, the options of challenging its territorial integrity by supporting the cause of Uyghur (or Tibetan) separatism diminish by the hour. As the international economies have become increasingly intertwined with China's, China—also a permanent member of the U.N. Security Council—could easily deter any such attempts. Thus, given these internal and external constraints, the prospects of Eastern Turkestan independence in the foreseeable future are practically nil and are not going to get any better, on the contrary. This is why the WUC founding statement does not even mention the word “independence.”⁶ Instead, the WUC is aiming lower, trying to do what it thinks is doable and to achieve what it thinks is achievable, namely: greater autonomy through the introduction of democracy and self-determination, at least as an interim strategy.

Such an agenda is undoubtedly much more attractive for other governments, Western as well as non-Western (many of whom are also coping with instances of separatism). For one thing, WUC strategy conforms to the Washington-led crusade for democracy and human rights yet, on the other hand, it is not too offensive to upset the Chinese to the point of undermining multilateral economic and diplomatic relationships. Unlike most other national liberation organizations that adopt violence (and often terrorism)—both in theory and in practice—to promote their cause, the WUC has relied on the use of peaceful means and moderate tactics. Furthermore, in China itself the internal debate on “autonomy” is not yet over.⁷ Throughout the years Chinese scholars and intellectuals have put forward different conceptions, definitions, and meanings of the term “autonomy,” to correct the political-ideological mistakes that Beijing admitted to have made from time to time. More recently some Chinese scholars

⁶ Press Release, available at [http://www.uygur.org/wunn04/09_23.htm].

⁷ For an excellent discussion of this issue see: G. Bovingdon, “Autonomy in Xinjiang: Han Nationalist Imperatives and Uyghur Discontent,” *Policy Studies*, No. 11, Washington, 2004.

have raised ideas suggesting a redefinition of “self-determination” that, while rejecting the right for independence, provides for greater autonomy.⁸

In practice, however, there are no signs whatsoever that Beijing is ready to move in this direction. On the contrary, in 2005, celebrating fifty years of the establishment of the Xinjiang Uyghur Autonomous Region, Beijing has appeared to be moving in the opposite direction. Since the beginning of reform over a quarter of a century ago, China’s persecution of the Uyghurs has increased: there is *less* autonomy in Xinjiang now than used to be in Mao’s time. To be sure, Beijing is in no hurry and has hardly any incentive to offer Uyghurs greater autonomy except, perhaps, in order to improve its international image. The Chinese feel and behave like untouchables on this score, although the recent release of the Uyghur woman activist Rebiya Kadeer from Xinjiang jail still exposes their vulnerability to external pressure. But, to quote Dru Gladney’s title, “Prisoner’s Release Does Not Herald a Xinjiang Spring.”⁹ This is precisely the problem—says another group of East Turkestan leaders: Beijing would never grant greater autonomy to East Turkestan, much less democracy. Consequently, according to this view, East Turkestan national and cultural survival cannot depend on anything less than pursuing independence uncompromisingly and at all costs.

V

To achieve this goal, in September 2004 they established a competing organization in Washington, called the Republic of East Turkistan Government in Exile (ETGE). As its name implies—and unlike the WUC—this organization is concerned more broadly with “East Turkestan” and “East Turkestanis,” denoting a specific geographical region that contains different nationalities. The term “Uyghur” is not mentioned even once in its inauguration statement. Its high-ranking hard-line leaders (“Prime Minister,” Anwar Yusuf Turani, “vice prime ministers” and “ministers”) are scattered all over the world and there is practically nothing behind their titles. For this and other reasons Uyghurs and others treat the ETGE as not terribly effective and a farce. Though it is now defunct it had some value. Its founders—who believe that seeking anything less than independence is unworthy, unworkable and hopeless—tend to consider the alternative quest of greater autonomy also as treason. But if they believe that greater autonomy can hardly be achieved, how could independence—given all the constraints mentioned above?

It is probably not a coincidence that the ETGE had been established in Washington where its center was located. As elaborated in the “Declaration of the Formation of the Eastern Turkestan Government in Exile,” the American connection is the cornerstone of the ETGE’s strategy. Ultimately, if anything meaningful could be *done* at all for Eastern Turkestan independence (to distinguish from *said*) it would be done not by Belgium, Germany, Turkey or Kazakhstan, but by the United States—the most powerful player as yet in the unipolar world. Put differently, the ETGE smartly tied its vision of independence only to the United States “as the leader of liberty, justice, and wisdom, hoping that the United States of America will recognize the just cause of freedom and independence of millions of East Turkestanis.”¹⁰ If Washington is unable to *positively* cause Beijing to grant independence to East Turkestan and thereby “to put an end to the misery of so many innocent people”—and there are no indications that it could or would—then the prospects of Eastern Turkestan independence depend *negatively* on a deterioration of U.S.-Sino relations that could lead to China’s involvement in a mili-

⁸ See: *Minzu zjjue hai shi minzu fenlie: minzu he dangdai minzufenliezhuyi* (National Self-Determination or National Separatism: Nationalities and Contemporary National Separatism), ed. by Pan Zhiping, Urumqi, 1999.

⁹ D. Gladney, “Prisoner’s Release Does Not Herald a Xinjiang Spring,” *Yale Global*, available at [<http://yaleglobal.yale.edu/display.article?id=5497>]. Kadeer was later elected second WUC president.

¹⁰ See: *Declaration of the Formation of the E.T Government in Exilen*, available at [http://www.uygur.org/wunn04/09_14.htm].

tary conflict or even to its disintegration thereby providing an opportunity for the restoration of the defunct Eastern Turkestan Republic. A few circles in the United States—and their number are steadily growing—not only share this scenario but also welcome it. Would or could it be ever accomplished? This is highly unlikely but still possible. Occasionally, China and the United States seem to be on a collision course and there have already been a number of confrontations and incidents. Yet, at least on the Chinese side, underneath this display of tension, militancy and rivalry many leaders would prefer good relations with Washington and realize the benefits for China. A Sino-American clash may still be far away, if at all, and so are the prospects of Eastern Turkestan independence.

VI

Although a unified Uyghur national movement has never really existed, the pluralistic nature of Eastern Turkestan nationalism, promoted by a number of organizations and associations in a variety of ways, facilitated a certain flexibility, fundamental common understanding and shared values. Now, the division of the Uyghur national movement into two apparently separate ideologies, strategies and institutions has forced Diaspora Uyghurs to identify with one or the other—or with none. A rivalry between these two camps has consequently begun to emerge creating internal tension and discord among expatriate Uyghurs. To be sure, whether inside or outside China, Uyghurs have never constituted a homogenous group. Yet, the current split appears to cut across families, friends and communities, thereby undermining the sense of solidarity that had been felt heretofore despite existing divergence. Perhaps this is because expatriate Uyghurs had traditionally regarded their national struggle as a virtual one in which they should not have had to be personally involved while now they have come around to regard it as a real one in which they should. But which way to go? The essentially pragmatic way? The essentially dogmatic way? None? Or perhaps both?

C o n c l u s i o n

One could question the effectiveness of a bifurcated national movement that pursues two apparently different and mutually exclusive goals simultaneously. Indeed, if we look from above, a two-headed creature is an abnormality and a recipe for discords, splits, and eventual weakness and collapse. Yet, if we look from below, a two-legged creature is absolutely normal even if its legs are not coordinated and go in different directions. In this respect, and in my view, the two organizations complemented rather than contradicted each other—like *yin* and *yang* (to use another Chinese expression). While pragmatism and compromises are essential for achieving political goals, one should never lose sight of the ultimate vision, a compass that points all activities to the ultimate direction. Even if achieved, which is unlikely, democracy and greater autonomy for Uyghurs is but a first step in the long march toward independence. If Jewish experience is considered, it may take years, decades, or even centuries, but the vision should be kept alive at all costs.

Such combination of pragmatism and idealism is not necessarily Chinese. In fact, it is often typical of national liberation movements and provides for more flexibility along the way in order to reach the final destination. Either diplomacy or militancy may fail. Both diplomacy *and* militancy may win. Modern history is full of examples. It is the interaction between political and pragmatic Zionism (that was ready to accept—then and now—the partition of Palestine), on the one hand, and dogmatic-militant Zionism (that would not compromise), on the other, that had finally led to the withdrawal of British colonialism from Palestine and thereafter to the establishment of the State of Israel. Similarly, Palestinian violence alone could not promote a Palestinian State, on the contrary. Yet, at the same time it provided incentives for a political dialogue and readiness to compromise that paved the ground for the

establishment of a Palestinian State, not virtual but actual. Many other national liberation movements have displayed a similar dualistic nature and experience that contributed to their success. "Walking on two legs" is by no means exceptional. In fact, it could enable Uyghur nationalism and the vision of the Eastern Turkestan Republic to proceed in more than one way and to ensure progress. Right now, however, with its diminishing militant nationalism, the Uyghur independence movement appears to be limping on two legs rather than walking, least of all running.

JAPANESE DIPLOMACY MAKES NEW HEADWAY IN CENTRAL ASIA: ITS PROBLEMS, EXPECTATIONS, AND PROSPECTS

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The geopolitical space of Central Eurasia has long been a wrestling ring for the leading global and regional players. During the fifteen years since the U.S.S.R. disintegrated, specific actors have taken up their position in this process, formulated their goals and interests, and drawn up explicit game rules. Japan did not previously feature on the list of powers taking part in the intensive geopolitical struggle in the region. Since the Central Asian states gained their independence, Japanese policy toward the Central Asian Region (CAR) was not distinguished by high activity. Nevertheless, in the past few years, this player has been showing increased interest in Central Asia, which was aroused by several political and economic factors.

Japan appears to have noticeably activated its diplomatic resources recently for the explicit pur-

pose of enhancing its relations with the CAR countries. It is generally thought that Tokyo's Central Asian diplomacy has its sights set on the energy resources it requires for guaranteeing Japan's energy security against the background of the steadily mounting price of oil. As we know, Tokyo is currently carrying out a new energy strategy aimed at ensuring long-term stable deliveries of oil, gas, and other energy resources in order to boost its economy, which is the second largest in the world.

But if we look closer, it becomes clear that Japan is trying to play an even greater geopolitical role. In so doing, Japanese ambitions are aimed not only at Central Asia, but at Eurasia as a whole—in counterbalance to the growing influence of Moscow and Beijing, as well as, most likely, under Washington's patronage, the Land of the Rising Sun being its long-standing and devoted ally.

Tokyo's Geopolitical Interests in Central Asia

Whereas Japan's policy used to focus mainly on humanitarian and economic aid to the region's states, Tokyo is now expanding its range of interests in Central Asia and building a more concise foreign policy strategy toward the CAR. The Japanese leadership probably understands that its former approach and emphasis on building its international image as a peace-loving economic power is no longer sufficient. As Central Asia becomes gradually integrated into the world globalization processes, relations with the Central Asian countries must be developed in other more practical areas of cooperation.

The changes in Japan's policy largely go hand in hand with Central Asia's new role as a potential alternative to the Far Eastern Region for the export of energy resources. The fact that the Central Asian states themselves have begun playing a greater role in the rivalry among the major geopolitical players is also very important.

Japan's initiation of projects aimed at comprehensive interaction with the Central Asian countries in the economy, politics, and security shows that Tokyo is activating its policy toward CAR. In August 2004, during the visit of Japanese Foreign Minister Junko Kawaguti to the Central Asian states, a Central Asia + Japan dialog (CAJD) was launched.

Since its meetings are held irregularly and the interaction among the member states of this forum is low, it is difficult to talk confidently about the effectiveness of this structure. However, several Japanese researchers claim that the Central Asia + Japan dialog is a new stage in the establishment of relations between Tokyo and the Central Asian states. For example, some Japanese experts note that since the CAJD began, cooperation with the Central Asian countries has been raised to a higher level. But this claim is extremely disputable, and the success of Tokyo's diplomacy will largely depend on what it can offer the region's states.

Within the framework of the dialog, Japan intends to promote a multilateral approach in regional cooperation between the Central Asian countries. In comparison with Eurasian diplomacy, the Central Asia + Japan dialog advanced institutionally largely because decisions in the Japanese government are made "from the bottom up," particularly in the Foreign Ministry.¹

It has recently become obvious that Tokyo is trying to raise the authority of the dialog, which is shown by the fact that meetings are being held more frequently at different levels within the framework of the CAJD. Last February, the second meeting of high-ranking officials of the dialog member states was held in Astana. In June 2006, a meeting was held in Tokyo at the level of foreign ministers of the CAJD states.

The increased interest of the world mass media in the policy conducted by Japan toward CAR is also indicative. For example, Japanese Prime Minister Junichiro Koizumi's visit to Kazakhstan and Uzbekistan at the end of August 2006 aroused a wide response in the international press. This event attracted the lively interest of several leading publications of the world mass media, such as *Japan Today*, *Arab News*, *Reuters*, and the BBC.

According to well-known Kazakhstani political scientist Murat Laumulin, this visit "was largely symbolic, since it designated the end of an era of indefiniteness in Japan's policy and strategy toward Central Asia. When looking over the one-and-a-half decades of the post-Soviet era, our attention is drawn to Japan's perfunctory declaration of its interests in Central Asia and Eurasia. I am referring to the Great Silk Road doctrine. But in reality, Tokyo did not begin taking specific steps in the political, economic, and broader geo-economic respect until the second half of Koizumi's term as prime minister."²

¹ T. Yuasa, "Stroitelstvo dvustoronnego partnerstva v ramkakh dialoga 'Tsentral'naia Azia + Iaponiia,'" in: *Kazakhstansko-iaponskoe sotrudnichestvo: sostoianie i perspektivy: materialy mezhdunarodnogo "kruglogo stola,"* 5 December, 2006, Kazakhstani Institute for Strategic Studies under the Kazakhstan President, Almaty, 2007, p. 33.

² M. Laumulin, "Strategiia Iaponii v Evrazii," in: *Kazakhstansko-iaponskoe sotrudnichestvo: sostoianie i perspektivy: materialy mezhdunarodnogo "kruglogo stola,"* 5 December, 2006, p. 33.

An analysis of Japan's regional initiatives shows the following foreign policy interests of this country in CAR:

1. Ensuring the country's energy security by increasing its access to Central Asia's energy resources. The Middle Eastern states are the main oil exporters to Japan. Taking into account the high conflict potential in this region (escalation of the Israeli-Palestinian conflict, aggravation of the political situation in Iraq, and growing pressure from the U.S. and the West on Iran regarding its nuclear program), Tokyo is interested in looking for new partners capable of guaranteeing stable and uninterrupted deliveries of energy resources to Japan. Diversifying the routes for importing energy resources should lower Japan's dependence on the Arab world. In August 2006, before leaving for Astana, Premier Koizumi announced Tokyo's interest in Central Asia's energy resources. "As for our strategy regarding energy resources, it is not good for Japan to be too dependent on the Middle East. Whereas Kazakhstan and Uzbekistan are the fortunate owners of vast supplies of resources," he emphasized.³ This statement unambiguously shows Tokyo's interest in the energy sector of the Central Asian countries.

The following facts show Japan's interest in developing and intensifying its relations with the Central Asian states in the energy sphere:

- In May 2006, the Japanese Ministry of Economics, Trade, and Industry published a *new national energy strategy*, in which the need was emphasized for expanding Japan's ties with states rich in energy resources. This project was to be based on the creation of powerful transnational corporations for extracting, processing, and transporting raw materials. That is, if, for example, the share of Japan's domestic oil-production and transportation companies currently amounts to approximately 15%, by 2030, it should reach 40%.⁴
- Japanese officials are emphasizing the need in their statements to expand partnership with the Central Asian countries in the energy sphere. The Japanese prime minister made his first visit in history to Kazakhstan and Uzbekistan on 28-31 August. At his meeting with Kazakhstan President Nursultan Nazarbaev, Junichiro Koizumi emphasized that the Japanese side intended to intensify cooperation with Kazakhstan in the nuclear energy sphere, including in the development of uranium fields. The meeting ended in the sides signing a Memorandum of Intent between the governments of Kazakhstan and Japan on advancing their partnership in the use of nuclear energy.

2. Tokyo is also interested in cooperating with Central Asian states to counterbalance the extreme increase in China's and Russia's influence in CAR. Japan is a strategic rival of the PRC on the international arena. These two nations are locked in a geopolitical struggle for leadership in the Asia Pacific Region. A case in point are the regular visits by high-ranking Japanese officials to the Yasukuni Shrine, which arouses severe criticism from the PRC and accusations of Tokyo adhering to its militaristic past. The situation is aggravated by China's territorial claims against Japan over the Senkaku or Diaoyutai islands, as well as the rivalry between the two countries in gaining access to Siberia's energy resources. In this respect, Tokyo is keeping a close eye on the strengthening of Beijing's international position, as well as the build-up of its military-political and economic potential, viewing this as a threat to its own strategic interests.

There are also diplomatic difficulties in interrelations with Russia, the main reason for which are Japan's territorial claims to the Southern Kuril islands, which periodically give rise to conflicts between Russian border guards and Japanese fishing boats. In addition, misunderstandings regularly arise in Russian-Japanese relations over cooperation in developing East Siberia's natural riches.

³ A. Dubnov, "Proshchalnyy visit Koizumi," *Vremia novosti*, 29 August, 2006.

⁴ See: B. Sultanov, "Aziatskiy vector vneshney politiki RK," in: *Kazakhstansko-iaponskoe sotrudnichestvo: sostoi-anie i perspektivy: materialy mezhdunarodnogo "kruglogo stola,"* 5 December, 2006, p. 8.

It should be noted that the contradictions in Japan's interrelations with China and Russia are aggravating the rivalry between these actors in Central Asia. In this respect, it appears obvious that the PRC's stronger position in the region and, moreover, the more reliable partnership between China and the Russian Federation within the framework of regional organizations are not to Tokyo's advantage. The increased role of the Shanghai Cooperation Organization in ensuring regional security, as well as the active participation of Chinese and Russian energy companies in Central Asia, are arousing Japan's great concern.

In particular, Tokyo regards these initiatives as direct growth in Russia's and China's political and economic influence in Central Asia, which could in the future prevent the Land of the Rising Sun from realizing its interests in this region. According to some Japanese experts, the Shanghai Cooperation Organization is largely to blame for the fact that the Western countries, as well as Japan, have developed negative impressions about this structure. For example, Japanese expert A. Ivashita believes that these negative images must be eliminated in order to resolve this problem. This could be achieved by involving the Western states in the SCO, whereby Japan could also possibly join the SCO. This step would demonstrate the organization's openness to the world community and, in particular, to countries showing an interest in the Central Asian region.⁵

The second meeting of the Central Asia + Japan dialog member states held in Tokyo on 5 June, 2006 at the foreign minister level showed that Tokyo is trying to counterbalance its own initiatives in Central Asia against the growing influence of China and the SCO. Kazakhstan was represented at this meeting by deputy foreign minister and chargé d'affaires of the republic's government K. Abdrahmanov. It is worth noting that the meeting was organized on the eve of the SCO summit, which was closely followed by the international community and particularly by the Western nations.

The main result of the meeting was that the participants adopted a plan of action defining the priority areas in cooperation between the Central Asian countries and Japan in the mid-term. Under the said project, the following decisions were made:

- on holding similar meetings (at the foreign ministerial level) on a regular basis;
- on reviewing the question of organizing a summit within the framework of the CAJD: Russia will most likely not approve of convening such a symposium, and China will also regard it as a threat from Japan to the regional interests of the two powers;
- on intensifying Tokyo's partnership with the Central Asian countries to ensure regional security: this sphere of interaction will include questions of reinforcing the border, intercepting drug trafficking, destroying antipersonnel mines, and combating terrorism;
- on increasing Japan's assistance to the Central Asian states in combating poverty and resolving environmental problems.

Moreover, at the above-mentioned June meeting in 2006, the member states agreed to continue cooperating in drawing up projects for forming new routes to deliver oil, natural gas, and other raw materials from CAR to the world markets via Afghanistan to the Indian Ocean.⁶ The very fact that the action plan was adopted shows that Tokyo has its sights set on developing comprehensive relations with the Central Asian states.

Japan is actively supporting projects for building oil and gas pipelines from Central Asia in the southerly direction with the prospect of access to the Southeast Asia market, which, of course, will also include the Land of the Rising Sun in the future.

⁵ See: A. Ivashita, "Geopolitika v Tsentral'noi Azii: vzgliad iz Iaponii," in: *Kazakhstansko-iaponskoe sotrudnichestvo: sostoianie i perspektivy: materialy mezhdunarodnogo "kruglogo stola," 5 December, 2006*, p. 14.

⁶ According to the report by the Regnum Agency, available at [www.regnum.ru].

3. Tokyo's support of U.S. policy in CAR. Japan is the U.S.'s ally and junior partner in ensuring security in the Asia Pacific Region, Southeast Asia and, most likely in the future, Central Asia. Washington's increased influence in Central Asia, in counterbalance to the growing foreign policy ambitions of Russia and China, seems advantageous to Tokyo, since in this case the projects for exporting energy resources from the Central Asia Region to Japan will have more active support from the White House administration.

Another important geopolitical aspect of Tokyo's policy in Central Asia is regional security, which implies active support of the U.S.'s initiatives in CAR to fight international terrorism, strengthen democracy, and enhance human rights. This is shown by the facts presented below.

- In August 2004, after the CAJD forum opened, its participants adopted a joint statement expressing the intention of the sides to cooperate in strengthening peace and regional security. The document underlined that the Central Asian countries and Japan were ready to continue their assistance in the stabilization and restoration of Afghanistan, as well as in the formation of a single state on its territory by helping to develop democracy in this country.
- In November 2005, Afghanistan joined the Central Asia Regional Economic Cooperation Organization created on Tokyo's initiative with support from the Asian Bank of Development.
- During Japanese Prime Minister Koizumi's visit to Uzbekistan at the end of August 2006, the leaders of the two states also discussed other topics in addition to energy cooperation issues. In particular, during the talks, Mr. Koizumi noted that Tokyo was willing to help Tashkent restore its relations with the United States. Moreover, he emphasized that friendly interrelations between Japan and Uzbekistan would lead to an improvement in the latter's relations with America and the European Union. In this respect, it is possible that Mr. Koizumi's visit, in addition to expanding partnership relations in the energy sphere, was also aimed at continuing the talks with Islam Karimov designed to restore positive contacts with Washington. It is worth noting that Mr. Koizumi's visit to Uzbekistan took place after U.S. Assistant Secretary of State Richard Boucher visited in August 2006.⁷

The tasks to ensure regional security and combat terrorism raised by the participants in the Central Asia + Japan dialog largely coincide with the SCO's tasks, which shows that the foreign powers have similar interests in the region. In this respect, it is obvious that Tokyo, which is posing itself as a reliable partner of the Central Asian states, is also playing the role of mediator in stabilizing and developing relations between the Central Asian countries and the United States.

It is very possible that the dynamic development of interaction among the CAR states in the Shanghai Cooperation Organization does not correspond to the strategic interests of the U.S. and Japan in Central Asia. Both Tokyo and Washington clearly understand that if they do not take active measures, this forum will soon take on the form of an open division in the sphere of influence and their subsequent reinforcement in the Eurasian expanse.

When analyzing Japan's strategy, it becomes obvious that the country's establishment positioned CAJD as a foreign policy tool capable of enlarging Japan's presence in Central Asia and realizing Tokyo's above-mentioned geopolitical interests in the region. This is also shown by the regularity with which meetings are held within the framework of the dialog, but it is still too early to draw any conclusions about their effectiveness.

In order to ensure its geopolitical interests, Japan is strengthening its interrelations with the Central Asian republics within the framework of CAJD in the following areas:

- **Economic cooperation**—development of the market economy and advancement of the Japanese model of economic development are helping to raise Tokyo's international prestige.

⁷ See: Japan's Incursion into Central Asia, available at [www.easttime.ru].

- **Political cooperation**—development of democracy, but keeping in mind the special features and cultural-historical specifics of the region's states, which also means their interests.
- **Cooperation in ensuring security and building regional stability**—combating terrorism and drug trafficking. Due to several objective circumstances to be discussed below, this is a secondary priority for Japan in streamlining its relations with the CAR countries.
- **Humanitarian cooperation**—combating poverty and cooperating in environmental security are traditional spheres of Tokyo's partnership with the post-Soviet states.

Japan's tactics in CAR are distinguished by great caution. This is understandable, since when Central Asia is only just starting to attract the attention of contemporary Japanese diplomacy, the U.S., Russia, and China are already flexing their muscles in this energy-rich region and vying with each other for access to the energy resources.⁸

The Special Features of Japan's Policy in Central Asia

On the whole it is obvious today, both based on reality and on the conclusions of most experts, that Tokyo's policy in Central Asia is based on a relatively low level of involvement in the region's affairs, and so it is having a minimal effect on the regional processes (if any at all).

Japan's participation in CAR mainly boils down to financing joint projects in energy, transport, and communications. Trade relations between the CA countries and Tokyo are also at a low level, although they are showing a steady tendency toward growth. For example, whereas in 2005, the overall trade turnover between Kazakhstan and Japan amounted to 736.1 million dollars, in 2006, this index was equal to 1,128.2 million dollars, i.e. almost double.⁹ But if we take the economic potential of the two states into account, these indices are insignificant compared with Kazakhstan's trade turnover with other countries.

Tokyo's relatively insignificant participation in the regional processes in CA is explained by the following objective factors, which are hindering an increase in Japan's influence in CAR:

- **Japan's geographical distance** from Central Asia makes it difficult to increase its influence in the region in the same way as Russia or China, with respect to which the Central Asian states historically do not belong to the sphere of Tokyo's direct political and economic interests.
- **Japan is not a powerful military nation** and cannot use the force factor to bring more pressure to bear on the Central Asian countries. Moreover, Tokyo does not have broad prospects for participating in the regional security processes. In this respect, the Land of the Rising Sun also loses out to Moscow and Beijing.
- **Japan's cultural remoteness and the low use of the Japanese language in Central Asia** are important factors that interfere with Tokyo reaching its strategic goals in the region.
- **The absence of direct common interests between Japan and the Central Asian countries in ensuring security.** In this sphere, the priority areas of Japanese foreign policy are the United States of America, the Asia Pacific Region, and Southeast Asia.

On the other hand, the following factors can be described as being conducive to the further intensification of Tokyo's relations with the Central Asian countries:

⁸ See: Japan's Incursion into Central Asia.

⁹ According to the data of the Republic of Kazakhstan Statistics Agency, available at [www.stat.kz/index.php?lang=rus&uin=1171355564].

- **Broad financial possibilities.**¹⁰ Japan has vast investment potential for implementing expensive joint projects with the CA states in energy and the development of the region's transportation and communication network.
- **The Central Asian countries have formed a positive image of Japan as a peace-loving power,** which is raising mutual trust on the way to bilateral and multilateral cooperation. Japan's image as an economically developed Asian state is promoting further intensification of economic contacts with the region's countries.
- **Tokyo is in favor of advancing democracy and enhancing human rights, but it is not imposing its own opinion on the Central Asian states.** Japan is willing to take into account the cultural and traditional characteristics of the region's countries in the democratization process. For example, at a meeting between Uzbekistan President Islam Karimov at the end of last August, Prime Minister Koizumi did not make any harsh comments about human rights violations and restrictions of democratic freedoms, but at the same time noted that Tokyo would like to see Uzbekistan a democratic state. Japan's sufficiently correct and diplomatic position regarding political reforms is conducive to building favorable relations with the Central Asian countries.

Summing up the positive and negative factors that are having a determinative effect on the formation of Tokyo's policy in Central Asia, it can be stated that, on the whole, Japan has sufficient possibilities for successfully advancing cooperation with the Central Asian countries in the economy, finances, and energy.

But, taking into account the trends toward an augmentation in the influence of the major regional actors (Russia and China) in Central Asia, it should be noted that Japan cannot compete with these nations at present for leadership in CAR. In this respect, CAJD should be regarded as a platform for gradually strengthening contacts with the Central Asian countries, as well as for further opening up cooperation prospects at new and more important stages of partnership.

New Premier—New Policy?

Keeping in mind the trends that have developed in Japan's CAR policy, in particular, Tokyo's increased interest in the region's energy sources, and, as a result, Japan's intensified contacts with the Central Asian states, it must be stressed that cooperation between the Land of the Rising Sun and the CA states will continue to grow. Japan's new prime minister, Shinzo Abe, repeatedly emphasized at the end of September 2006, before he assumed his post, that Tokyo is striving to increase its own role and geopolitical position on the international arena.

Tokyo's ambitious plans will have a significant influence on the further development of relations with the Central Asian states. But it should also be noted that Japan is pursuing different goals in bilateral contacts. The fact that during his historical (or first) visit to CAR, Prime Minister Koizumi met with only two leaders of the Central Asian states—Nursultan Nazarbaev and Islam Karimov—also indicates Tokyo's priorities in the region. It is obvious that the Japanese premier's visits to Kazakhstan and Uzbekistan were motivated by the desire to raise the level of relations with these countries particularly due to their rich natural resources, which Mr. Koizumi openly stated during his meeting with Nursultan Nazarbaev in Astana.

¹⁰ Japan is the largest financial donor of the Central Asian states. Tokyo's official assistance to the development of the Central Asian countries amounted to more than 2 billion dollars between 1991 and 2004. According to the data of the National Bank of the Republic of Kazakhstan, the total amount of Japan's direct investments in Kazakhstan amounted to \$1 billion between 1993 and 2005, and to \$75.4 million in the first six months of 2006.

With respect to **Kazakhstan** and **Uzbekistan**, the new Japanese government is steering a course toward increasing the flow of investments and increasing its presence as much as possible in the energy sectors of both republics. Along with Tokyo's increased interest in the region's oil and gas supplies, Japan's attention is being attracted in particular by the prospect of joint development of uranium fields. At the current stage, the following prerequisites exist for Tokyo's partnership with Astana and Tashkent in this sphere:

- In March 2006—during the 8th joint sitting of the Kazakhstan-Japanese and Japanese-Kazakhstan committees on economic cooperation in Astana—Japanese businessmen stated that Japan's level of direct investments in Kazakhstan was insufficient.¹¹
- 28 August, 2006—during Junichiro Koizumi's visit to Kazakhstan—Kazakhstan Minister of Energy and Mineral Resources B. Izmukhambetov and Japanese ambassador to Astana T. Ito signed a memorandum of intent of the two states to advance cooperation in the peaceful use of nuclear energy. After signing the document, the premier of the Land of the Rising Sun stated that it would "serve as the basis for greater cooperation between Kazakhstan and Japan, including in the sphere of nuclear energy and particularly in developing uranium fields."¹²
- During Mr. Koizumi's visit to Uzbekistan (29-30 August, 2006), the sides discussed the prospect of delivering raw uranium from Uzbekistan for nuclear power stations in Japan, as well as the possibility of developing the republic's oil and gas fields with the participation of Japanese capital.
- In April 2007, Japan's large energy companies—Tokyo Electric Power Company (TEPCO) and Chubu Electric Power Company—acquired a share in the authorized capital of Kazatomprom's subsidiary structures—Kyzylkum and Baiken-U, after acquiring the right to participate in operating the Kharassan-1 and Kharassan-2 uranium fields in the south of Kazakhstan. Joint production is starting in 2007 and, according to the plans of Japanese businessmen, should reach full capacity by 2014, which will amount to 5,000 tons of uranium a year. There are plans to carry out the project until 2050.¹³
- Moreover, at the end of April, Japanese Minister of Economics, Trade, and Industry A. Amari visited Kazakhstan and Uzbekistan. During his visit to Astana, a joint statement was signed between Kazakhstan and Japan on developing cooperation in uranium processing technology and in building nuclear reactors using light water in exchange for deliveries of uranium.¹⁴

In this way, it appears obvious that the arrival of the new premier will give Japan's strategy in Central Asia even clearer contours. Practical steps are gradually being taken to establish partnership with the Central Asian countries in the energy sector.

When analyzing Japan's policy in its relations with the other Central Asian states, we can also see its interest in **Turkmenistan**, which possesses the largest resources of natural gas among the CAR countries. But Turkmenistan is loath to establish contact with Tokyo within the CAJD forum, which is obvious from the level of Ashgabad's participation in Japan's initiatives, mainly boiling down to observation. For example, last February, the Turkmen side was represented by an observer at a meeting in Astana of high-ranking officials of the CAJD member states, while Turkmenistan refused to

¹¹ According to the report of the Kazinform Agency, available at [www.inform.kz].

¹² News Archives of the Republic of Kazakhstan Foreign Ministry, available at [www.mfa.kz].

¹³ See: "'Kazatomprom' nameren zaniat' bolee 40% rynka iadernogo topliva Iaponii posle 2010 goda," available at [www.nomad.su/?a=4-200704170219].

¹⁴ See: News Archives of the Republic of Kazakhstan Foreign Ministry.

send its representative at all to a foreign ministerial meeting of the member states of this forum held in Tokyo.

The change in power in Turkmenistan could mean that energy cooperation between Japan and Turkmenistan might shift to a practical level, but there are no real prerequisites for this so far, particularly in light of the May Russian-Kazakh-Turkmen oil and gas contracts.

Japan's relations with **Kyrgyzstan** and **Tajikistan** are of secondary significance at the present stage, which is associated with the following objective reasons:

- **Political risks in both republics.** In Kyrgyzstan, there is currently a trend toward aggravation of the political crisis. The influence and authority of the opposition are rising due to the ongoing socioeconomic and political crisis in the country. In Tajikistan, the risks of political destabilization are rising due to aggravation of the political situation in neighboring Afghanistan, and the increase in the activity of religious extremist movements and drug trafficking, most of which passes through the territory of Tajikistan. Taking into account the low level of political stability in Kyrgyzstan and Tajikistan, Tokyo will pay less attention to these republics in its investment projects, since Japanese investors are distinguished by high demands with respect to risks, as well as to the dividends to be drawn from the invested capital.
- **Tajikistan and Kyrgyzstan do not possess large supplies of hydrocarbons**, which Japan's investment capital is interested in and which is a determinative factor in expanding cooperation with these countries.

In addition, the geographical location of the two republics is of special importance in Tokyo's interrelations with Bishkek and Dushanbe, in particular their proximity to Afghanistan. Japan periodically puts forward initiatives aimed at building a transportation corridor from Central Asia to the south, in which Kyrgyzstan and Tajikistan will play the role of a link between Afghanistan and other countries of the region. In this respect, Tokyo's priority task in forming its own foreign policy regarding the mentioned Central Asian states is to create an integrated Greater Central Asian region, including Afghanistan, which is politically and economically less dependent on the leading regional actors (Russia and China). On the whole, in addition to developing economic contacts, Japan is also focusing attention on intensifying relations in cultural and humanitarian partnership in its interrelations with the CAR countries in order to stimulate the region's overall economic and regional security. Tokyo is singling out regional security as an equally important area of multilateral cooperation with the Central Asian states within the CAJD, but it does not seem likely that Japan will raise its role in CAR in this area. Tokyo will most likely continue to participate in the region's security affairs at the political-consultative level.

Kazakhstan-Japan: Is Cooperation Mutually Beneficial?

Tokyo's initiatives in Central Asia correspond in general with Kazakhstan's economic and geopolitical interests for the following reasons:

1. **Economic importance.** At present, Kazakhstan's economy is increasingly in need of foreign direct investments. Attracting Japanese capital into building the country's energy potential, as well as into small and medium business, transport, communications, infrastructure, and high technologies are urgent tasks of Kazakhstan's foreign policy aimed at transferring its industry from production to processing and achieving the goal of becoming one of the 50 most

developed states of the world, set by the country's president, Nursultan Nazarbaev.¹⁵ Efforts to exchange experience in economic development are just as important.

2. **Political importance.** The Central Asia + Japan dialog is a forum that promotes free exchange of opinions and experience with Tokyo regarding Kazakhstan's sustainable and democratic development. From this point of view, Japan is a valuable partner for Kazakhstan in the further intensification of cooperation.
3. **Geopolitical importance.** Building friendly relations with Tokyo within the framework of a multi-vector policy will make it possible to more efficiently maintain the geopolitical balance of forces in Central Asia. The CAJD forum could become an additional structure in the region that will help to reduce the West's apprehension over CAR becoming a zone of China's or Russia's political influence. In this respect, Japan's initiative in maintaining regional security, combating terrorism and drug trafficking, and reinforcing the borders within the CAJD framework appears important for strengthening overall stability in the Central Asian Region.

So it is obvious that Kazakhstan is focusing its attention in cooperation with Japan on developing partnership in the economy, politics, and security. The above-mentioned dialog being actively promoted by Japan at present is opening up possibilities for Kazakhstan to augment its interaction with Tokyo in the indicated areas. Expanding contacts with Japan within the CAJD forum is having a positive effect on raising the state's image in the eyes of the world community and having a beneficial influence on the economic development of both Kazakhstan and the Central Asian Region as a whole.

The Prospects for Japanese Diplomacy

The Land of the Rising Sun's policy in Central Asia is acquiring increasingly clear contours at present. Tokyo's obviously increased interest in the CA is manifested in the specific tasks it has set: augmenting Japan's political significance in the region's affairs and increasing the country's access to CAR's energy resources.

Tokyo's proposal to initiate regional cooperation in certain areas indicates its striving to make a qualitative change in its role in the processes going on in Central Asia. Whereas Japan was previously bent on creating its positive image as a nation wishing to help the young independent CA republics at a difficult time, being guided by "strictly altruistic considerations," but in reality trying to gain the support of the Central Asian countries to obtain the status of permanent member in the U.N. Security Council, now it is offering "to work together for the sake of the common good" in its initiating role; admittedly, far more serious intentions could be hidden behind this.

As some experts believe, the role Tokyo is playing in certain areas of regional partnership can be seen in the long term as an alternative to any form of CAR integration with the participation of Russia and China. Moreover, Japan might be much more preferable for the region's states since, first, it presents a unique example of economic success, technical progress, and prosperity, and, second, due to its distance from Central Asia, any possible increase in its influence will not be perceived as a potential threat, as frequently applies to China, and, possibly, to Russia. Nevertheless, it should be remembered that Tokyo's active participation in the region will be closely tied with the U.S.'s policy in Central Asia. In the long term, America's military power and Japan's economic potential, taking

¹⁵ See: *Address of the President of the Republic of Kazakhstan N. Nazarbaev "Strategy of Kazakhstan Becoming One of the 50 Most Competitive States of the World: Priorities and Ways to Implement It,"* Kazakhstani Institute for Strategic Studies, Almaty, 2006, 152 pages.

into account the streamlined mechanism of interaction along these lines in other areas of the world, could become serious factors of influence when divvying up Central Asia's energy resources.¹⁶

At the same time, it should be noted that the Land of the Rising Sun's presence in Central Asia is still very insignificant compared with the other regional players. Japanese companies do not have any significant influence in CAR's energy sector, which is primarily related to the high level of competition from Russian, Chinese, and Western companies, as well as to Japan's geographical distance from the region.

On the other hand, Tokyo is continuing to initiate various projects in other areas of cooperation, such as ensuring stability and regional security, advancing democratic values, and enhancing human rights. However, the nature of its participation in these processes is declarative and, consequently, it objectively remains an outsider in the regional geopolitical game. It is no accident that the functions of the CAJD forum are universal and do not only boil down to strengthening multilateral economic partnership, thus showing Japan's desire to raise the level of its relations with the Central Asian states, as well as in other key areas of interaction. It is presumed that the following factors will have an influence on Tokyo's position in Central Asia:

- **first**, the Russian factor: Japanese-Russian relations—despite their outward constructivism—have serious historical contradictions involving the territorial issue. In addition, taking into account that CAR is a zone of Russia's strategic interests, the Kremlin is unlikely to silently look on as Japan, America's ally, ensconces itself in the region;
- **second**, the Chinese factor: China, as we are well aware, has its own far-reaching plans and interests regarding Central Eurasia. The PRC has long been positioning itself as an empire with corresponding ambitions; moreover, if we take into account the historical memory of the Chinese people and all its claims against the Japanese, revenge is probably only a matter of time;
- **third**, the U.S. factor: Washington is rapidly losing its foothold in Central Asia, the situation in Afghanistan has become aggravated, and it is becoming increasingly difficult for America to retain its military presence in Kyrgyzstan. So if Japanese diplomacy is unable to prove that it has its own goals in the region, and is not lobbying American interests, its chances are extremely small;
- and, **fourth**, the Central Asian factor: the Central Asian countries have already formed their priorities. They have their own interests, they are gradually acquiring confidence in international issues and augmenting their role in the regional processes. On the whole, it can be said that the CAR countries are developing their own policy of interrelations with the major foreign players and, as we have already indicated above, Tokyo's geopolitical and energy prospects will largely depend on Japan's proposals and on how beneficial they will be to the region.

Nevertheless, as the foreign players (primarily Russia, China, and the U.S.) step up their activity in Central Asia and, consequently, the struggle for influence gains momentum, Kazakhstan and the other CA republics will also have to develop other foreign policy vectors to keep pace. In this respect, Japan, as a leading Asian economic power, could become precisely that force, the advancement of close cooperation with which will make it possible for both Kazakhstan and the other Central Asian states to establish a certain geopolitical balance in the region.

¹⁶ See: E. Usabaliev, "‘Transformatsiia Tsentralnoi Azii v koridor mira i stabilnosti’—novaia initsiativa Iaponii," available at [www.easttime.ru].

REGIONAL ECONOMIES

**CENTRAL ASIA:
ECONOMIC COOPERATION
POTENTIAL**

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The Central Asian republics are rich in energy resources: three of them (Kazakhstan, Uzbekistan, and Turkmenistan) can boast of oil and gas deposits, while the other two (Kyrgyzstan and Tajikistan) have vast hydropower potential. This means that harmonized energy policy designed to meet their demands in energy, energy exports, and stronger positions in ensuring international energy security makes sense.

By the same token, these countries can, potentially, develop metallurgy, machine building, and light industry as their industrial priorities. In fact, deeper integration in these fields will add efficiency to their efforts to fully tap the region's industrial potential. Integration in the agricultural sector with a view to developing, some time in the future, the common agrarian market is another local priority.

Transport is the field in which integration is even more welcome: the region's transit potential will expand the trade and economic ties among the local states and revive the Great Silk Road.

The present level of mutual trade has not yet reached the highest possible level of economic cooperation: the share of its Central Asian neighbors in Kazakhstan's trade turnover is about 0.6 percent (in 2006, Kyrgyzstan's share in Kazakhstan's trade turnover was a meager 0.7 percent; Tajikistan's share, 0.3 percent; Uzbekistan's, 1.1 percent, and Turkmenistan's, 0.2 percent).

This means that *deeper regional integration has become a priority and a factor of the local countries' faster economic growth, higher living standards, and stability.*

An analysis of the local states' social and economic development revealed that all of them have finally achieved positive rates of economic growth. In 2006, the average GDP growth rate of four of them (Turkmenistan is excluded) was 6.9 percent, while the growth rate of industrial production amounted to 3 percent.

At the same time, the level of economic development and market transformations differs from country to country.

In Uzbekistan, for example, the state has a great role to play in economic management, which should be changed to create a favorable investment climate.

In Kyrgyzstan, the fairly complicated local politics and strife among the local political groups pushes the economy and the standard of living into the background. The investment climate cannot be described as inviting.

Tajikistan and Turkmenistan are the region's poorest states. Tajikistan is burdened with enormous foreign debt; its inefficient economy cannot cope with the social problems and ensure economic growth. In Turkmenistan, the political system set up by late President Niyazov hampers democratic and market development in the country.

Kazakhstan, on the other hand, has surged ahead in its socioeconomic development, even though the country still relies on its raw-material sector and still has problems in the agrarian sphere. It remains under-funded, unable to rationally spend the budget money allocated to it and to master new technologies. The countryside and agricultural production are still in a sad state. The processing sector remains uncompetitive.

In pursuit of its ambitious aim of joining the group of the world's fifty most competitive states and integrating into world economy, the republic is working hard to diversify and modernize all the economic and social spheres.

The region's social and political instability is sending migrants to Kazakhstan, a process accompanied by an increase in crime and drug trafficking.

This means that the Central Asian countries should expand their cooperation and integrate for the sake of free movement of goods, capital, technologies, and services as well as better customs and tariff policies. Economic integration, faster market development, and more active democratic processes alone can spur on industrial growth that will create new jobs, improve the standard of living, and stabilize the situation.

An analysis of the integration processes in Central Asia suggests that regional cooperation is moving ahead: there is a legal normative basis of trade and economic ties within the region; intergovernmental coordinating councils have been created designed to promote economic cooperation (in 2006, Kazakhstan and Uzbekistan set up an Intergovernmental Coordinating Council that included heads of the corresponding ministries and departments of both countries; in 2007, Kazakhstan and Kyrgyzstan set up a similar structure); the ties with international organizations have become wider, while bilateral ties across the region are playing a much more important role than before.

On 11-12 September, 2007, during President of Kazakhstan Nazarbaev's visit to Turkmenistan, the two countries reached an agreement on their cooperation in the transport, energy, and health protection spheres. The railway between the two countries designed to connect them with Iran and the Gulf countries is high on the bilateral agenda.

The two presidents discussed the transit of Turkmenian gas across Kazakhstan to foreign markets, the Caspian Gas Pipeline project, and the involvement of Kazakhstan companies in prospecting and developing Turkmenistan's hydrocarbon reserves.

They also discussed the possibility of building a seaport and an airport in the city of Turkmenbashi and a cement plant in Turkmenistan. The president of Kazakhstan announced that his country was ready for talks on all these issues. It is expected that soon Kazakhstani banks, funds, and industri-

al companies will open their offices in Turkmenistan to promote mutually beneficial cooperation between the two countries.

On 12-13 September, 2007, during President Nazarbaev's official visit to Tajikistan, the sides discussed an agreement on setting up a Kazakhstan-Tajik investment fund with an authorized capital of \$100 million to promote cooperation between the two countries. Tajikistan is presently concentrating on hydropower production and the aluminum industry, which are expected to profit from Kazakhstani investments: their development will become more effective, while new jobs will stabilize the situation in the real economic sector.

During Premier of Kazakhstan K. Masimov's visit to Uzbekistan in July 2007, the sides looked at the future of their cooperation in the investment sphere, while Kazakhstan presented its Development Bank to demonstrate its readiness to fund joint breakthrough projects in energy production and other sectors of the real economy. If realized, they will become an important factor in the two countries' sustainable development. It should be said, however, that wider trade and economic cooperation between the two countries calls for adjustment of Uzbekistan's national legislation to the legal norms of the market economy. So far, Uzbekistan's banking legislation is interfering with the successful development of intergovernmental economic contacts. Not infrequently, businessmen find it hard to cash money and carry out other banking operations.

Kazakhstan is also making a concerted effort to add vigor to its investment cooperation with Kyrgyzstan. During President Nazarbaev's official visit to Kyrgyzstan, the sides discussed several projects in the real economic sector. Today, a joint venture among Kyrgyzstan, Kazakhstan, and Russian state companies is expected to complete two hydropower stations on the Naryn (Kambarata-1 and Kambarata-2).

During his visit, the Kazakhstan president pointed out that Kyrgyzstan should concentrate on its economic development and stabilize the social context. It should be said that in 2006 the volume of Kazakhstani investments into Kyrgyzstan's economy topped \$300 million (30 percent of the total volume of investments in Kyrgyzstan). An Intergovernmental Council was set up after the visit to deal with the issues of bilateral interest and promote further cooperation.

Today Kazakhstan is stepping up its investment cooperation with its Central Asian neighbors in their and its own interests. The country needs stability in the adjacent states as an important factor of stronger regional security and its own continued sustainable growth. An unstable economic situation across the borders might breed terrorism and extremism in the region; this should be prevented through deeper cooperation, joint projects in the real sectors of the region's economy, upgraded competitiveness of local industrial products, and higher living standards of the local nations. If realized, this will avert potential threats and contribute to the sustainable development of all Central Asian states.

We should say, at the same time, that the positive trends, notwithstanding the integration processes on the whole, are slowing down.

The problems of the rational use of the region's water and energy resources remain pending; from time to time the branch Agreement on the Use of the Resources of the Syr Darya Basin is forgotten.

The *energy sphere* still lacks an adequate level of cooperation in the customs, tax, and tariff policies. The highly inefficient system of customs control over energy limits the effective functioning of the energy systems in the parallel regimes. The extremely varied national legislations in the sphere of taxation are of no benefit to energy exchange. As distinct from the other Central Asian countries, Kazakhstan taxes energy, this practice creating legal collisions and interfering with the energy systems' smooth functioning. There are no coordinated approaches to tariffs on energy transit, which suffers in the absence of a harmonized tariff methodology.

In the absence of a fairly developed oil and gas pipeline infrastructure, the Central Asian countries cannot develop their integration in the energy sphere. In Kazakhstan, for example, many of its large gas fields remain unconnected to export gas pipelines (Tengiz, Janajol, and Uritau, among others). Uzbekistan, the largest transit center of gas exports from Turkmenistan to Russia, which also sells its gas to Kazakhstan, Kyrgyzstan, Russia, and Turkmenistan, is limited in its gas export activities to a single gas pipeline that connects the region with Central Russia and the other CIS countries.

The *transport sphere* has not yet achieved rational functioning of the Central Asian countries' transit potential. In some cases, Kazakhstan's railway policy leaves much to be desired. This is especially true of the tariffs, which do not promote regional trade and economic contacts. This has already forced Uzbekistan to seek alternative routes for its products.

Agriculture is another sphere in which cooperation is limited, to say the least. In the mid-1990s, Uzbekistan tried the "grain self-sufficiency" policy and failed: its climate is much less suited to grain growing than that of Kazakhstan. In fact, the Central Asian countries should try coordinated approaches to the agrarian sector, regional division of labor, and agricultural specialization.

The different development rates and scales of economic liberalization, coupled with the low level of economic cooperation between the local states, do not allow them to make mutual trade more effective.

So far trade inside the region is limited to energy sources and the transit of commodities; export and import of industrial products and foodstuffs are negligible.

The recent positive trend (Table 1) has done nothing so far to raise mutual trade turnover to a higher level.

Table 1

Trade Turnover among the Central Asian States
(million dollars)

Countries	2000	2001	2002	2003	2004	2005	2006	January-May 2007
Kyrgyzstan	90.1	119.6	139.6	205.1	313.2	334.1	406.7	178.9
Tajikistan	57.8	63.5	48.8	82.7	139.6	167.6	185.1	111.8
Uzbekistan	212.5	229.0	188.5	218.7	429.3	497.1	703.8	525.3
Turkmenistan	50.5	91.7	89.8	86.3	101.6	68	153.3	64.8

Source: The Statistics Agency of the Republic of Kazakhstan.

Uzbekistan's EurAsEC membership expanded the cooperation potential of all of its members (the Central Asian countries included) and widened their trade and economic contacts: the integration structure is based on the Agreement on the Customs Union of 6 and 20 January, 1995; the Treaty on Deepening Integration in the Economic and Humanitarian Spheres of 29 March, 1996, and the Treaty on Customs Union and the Single Economic Expanse of 26 February, 1999, under which the signatories are exempt from customs dues on a bilateral basis.

Uzbekistan's membership obliges the country to harmonize its national legislation with the EurAsEC norms, which will allow it in the future to open its domestic market, create a favorable investment climate, and conduct adequate customs policies. Taken together, these measures will become an important factor of mutual trade. So far, inter-regional investment cooperation remains undevel-

oped. An analysis of data related to Kazakhstan investments in the Central Asian economies speaks of still untapped investment potential (see Table 2).

Table 2

**Kazakhstani Investments
in the Central Asian Economies in 2006
(million dollars)**

Kazakhstan	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan
	309.2	152.3	94.0	5.8

Source: National Bank of the Republic of Kazakhstan.

According to the National Bank of the Republic of Kazakhstan, in 2006 the country invested \$4,590.1 million in Russia; \$2,082.9 million in the U.K., and \$1,122.5 million in the Netherlands.

At the same time, Kazakhstan's efforts to promote mutually advantageous ties with its neighbors are expected to add vigor to cooperation in the investment sphere. What is needed is a mechanism of deeper integration cooperation among the region's states that will treat cooperation in the real sector of the economy and joint projects as a priority. One such priority can be found in the energy sector: the local countries need more energy capacities to achieve energy security and meet their needs for cheap energy. The Kambarata-1 and Kambarata-2 hydropower stations in Kyrgyzstan and the Sangtuda, Rogun, and smaller hydropower stations on the Zeravshan River in Tajikistan now being built by Russia, Kazakhstan, and other foreign investors are very important for regional energy security.

Modernization of the oil and gas sector and improvement of the oil and gas transportation infrastructure are overdue. The planned Caspian and Trans-Caspian gas pipelines and the Central Asia-China gas pipeline system can play an important role as well.

To improve cooperation in the transport sphere, develop local transit potential, manage water resources, and strengthen the local countries' food security, they should primarily create the mechanisms of

- (a) a water-and-energy consortium;
- (b) a transportation consortium, and
- (c) a foodstuffs consortium.

This, in turn, calls for the following conceptions:

Conception of Functioning of an International Water-and-Energy Consortium should identify the task of elaborating the joint balance for managing the region's water resources based on the calculated needs for water of each of the countries and the possibility of meeting these needs and coordinate approaches to deal with the threat of flooding in the border regions and to make joint efforts to reinforce the banks, improve water quality, and deal with ecological problems.

If realized, this balance will make it possible to identify the best possible mechanism for ensuring mutual supplies of fuel, energy, and water resources, which will be registered in the Conception.

Conception of Functioning of the International Transportation Consortium calls for efforts to develop railways and highways, as well as the local countries' transport potential and transport machine-building.

The following railway routes should be developed in particular:

- (a) China-Kazakhstan-Uzbekistan-Turkmenistan-Iran-Turkey-the Balkan countries;
- (b) The North-South corridor.

Development of transportation corridors presupposes, in turn, that the Central Asian countries should:

- coordinate their customs, tax, and tariff policies in the transportation sphere;
- act together to modernize the region's transportation infrastructure;
- pool forces to attract financial institutions to modernize the already functioning and construct new infrastructure facilities.

This Conception should also identify the priorities for developing transport machine- building, some of them being:

- (a) wider integration in aircraft building on the basis of the Tashkent Aircraft Plant and Kazakhstan's resources (the Turgai bauxite mines and energy from the Ekibastuz hydropower stations);
- (b) closer cooperation in the car industry; production of parts for UzDaewooavto; wider cooperation with the world leaders.

If realized, the Conception of Functioning of the International Transportation Consortium will help the Central Asian countries develop their transit potential, expand their trade and economic ties among themselves and with their key trade partners, such as Russia, China, the EU, the Middle Eastern and Asian Pacific countries, etc. They will have the opportunity to modernize their transportation infrastructures, develop related industries, create new jobs (especially in direct proximity to the transportation corridors) and, at some time in the future, set up a Single Transport Space.

Conception of Functioning of the International Foodstuffs Consortium should identify the main spheres of the local countries' coordinated agrarian policy to ensure their foodstuff security.

These measures call for specific practical steps designed to boost competitiveness of the agrarian sector:

- (a) the latest technologies in land tilling and cattle breeding should be applied on a wider scale, while the cropping capacity of all farm crops should be improved;
- (b) foreign investments should be attracted to the agricultural sector, which should learn to rely on foreign experience for the sake of faster development of all the Central Asian states' agro-industrial complexes;
- (c) the structure of the cultivated areas should be adjusted to real needs in specific types of foodstuffs; the same applies to the cultivars and crop varieties;
- (d) intergovernmental clusters should be set up to produce the locally needed foodstuffs: rice, grain, milk, meat, juices, and fruit and vegetable preserves.
- (e) an innovation infrastructure should be set up.

It should consist of technoparks set up for R&D purposes in agriculture.

International experience of the formation and development of innovation infrastructure has demonstrated that to be effective technoparks should be treated as special economic zones with taxation, tariff, and other privileges.

The above should go hand in hand with effective cooperation in the use of the region's mineral resources. This calls for processing raw materials into almost entirely finished end-products that could cover local needs and be sold to third countries.

This can be done through transnational financial-industrial groups and joint ventures, which means that the Central Asian states should intensify their cooperation in the following branches:

- (a) oil refinery;
- (b) ferrous and non-ferrous metallurgy;
- (c) mining and processing of uranium ores;
- (d) cotton processing and tailoring.

To become more efficient, joint ventures should be created in the oil refining sector that will use high oil refinery technologies.

The Ferghana and Bukhara oil refineries in Uzbekistan and the Atyrau, Pavlodar, and Shymkent oil refineries in Kazakhstan should be joined to form an interstate cluster as one of the elements of the local countries' harmonized policy in oil refinery and their move toward a common market of oil products.

Ferrous and non-ferrous metallurgy calls for wider cooperation to upgrade quality and competitiveness of iron ores, manganese, and chromite raw materials and achieve higher processing levels.

In view of the imminent modernization of the Central Asian oil and gas transportation system, local industry should concentrate on producing rolled bars, high-grade steel, and pipes.

In non-ferrous metallurgy, the Central Asian countries should pool efforts to learn to use high technologies for metallurgical treatment of polymetallic concentrates, integrated treatment of original ores, metal-containing scrap, radioactive scrap metal, and wastes and for increasing production volumes of rare, noble, and precious metals.

Joint ventures in gold mining look promising. (The largest gold mines found in the Kyzylkum desert in Uzbekistan yield 80-85 tons of gold every year. In the near future, Uzbekistan plans to mine no less than 140-150 tons, which means that gold mining will need larger investments.)

Mining and processing of uranium ores will profit from wider cooperation between Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, which will improve management, modernize ore-dressing enterprises, and encourage joint research activities. Together they will find it easier to emerge onto the world markets.

The cotton-processing and tailoring industry will benefit from an interstate cotton cluster with a complete production cycle spanning all the stages: from cotton growing to the production of high-quality textiles.

Like all others, these branches will profit from foreign investments, part of which can be used to set up joint textile complexes.

To realize the above, to accelerate the development of the Central Asian processing sectors, and to improve their competitiveness, the Central Asian countries should draw and adopt corresponding intergovernmental decisions.

Deeper integration into real economy and the implementation of joint projects in industry and agriculture will be conducive to sustainable growth rates and greater stability and security in the region, and will also help the local states to integrate into the world community.

It has become abundantly clear that the currently obvious transnational threats can be averted only through more active regional cooperation and interaction with international institutions.

KAZAKHSTAN'S NATIONAL COMPETITIVENESS

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The problem of assessing Kazakhstan's national competitiveness has been actively discussed since March 2006. The rankings used to assess national (country) competitiveness are calculated by the World Economic Forum (WEF) in the form of a special index coupled with a separate Business Competitiveness Index (BCI). Prior to 2006, national competitiveness was assessed in terms of the Growth Competitiveness Index (Growth CI), which has now been replaced by a Global Competitiveness Index (GCI). Based on 2005 results, Kazakhstan was 61st in the Growth CI among 117 countries, trailing behind India's 50th place by 0.27 points (with a score of 3.77 against 4.04). In terms of the component indexes of the Growth CI, Kazakhstan's positions were as follows: rank 77 in the technology index, rank 41 in the macroeconomic environment index, and rank 76 in the public institutions index.

For comparison: Russia's rankings in these component indexes were 73, 58 and 91, respectively (with an overall Growth CI rank of 75).

Changes in the indexes assessing national competitiveness had an effect on the methodology used to calculate these indicators. This change in methodology, for its part, led to a change in the positions of individual countries. Thus, Kazakhstan now occupies 56th place in the GCI rankings. Nevertheless, this is not progress but regress compared to 2005, because under the new methodology the republic ranked 51st and not 61st, as in the Growth CI rankings. The same applies to various component indexes, including the macroeconomy, in which the country now ranks 10th, so that some commentators talk about an unprecedented breakthrough from 41st place in 2005. But it is incorrect to compare these places in the rankings, because the WEF now evaluates the macroeconomic successes of countries using other methods. There have been changes both in formulas and indicators and in the name of the given index. Today it is simply called "macroeconomy," whereas a year earlier the term was "macroeconomic environment index." In assessing macroeconomic competitiveness, the WEF now takes into account only six statistical indicators (hard data), whereas in the past its calculations were based on 10 indicators, including survey data. Consequently, Kazakhstan's current 10th place in 2006 cannot be compared with its 41st place in 2005, because these rankings were compiled based on totally different indexes.

Whereas the former Growth CI took into account three aspects of competitiveness (macroeconomic environment, public institutions and technology), the new GCI covers nine aspects: institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation. In the GCI rankings, 50th place is occupied by Indonesia, with Kazakhstan now lagging behind it by 0.07 points (with a score of 4.19 against 4.26). Nevertheless, the republic has the strongest positions among the CIS countries: Russia ranks 62, Azerbaijan 64, Ukraine 78, Armenia 82, Georgia 85, Moldova 86, Tajikistan 96, and Kyrgyzstan 107.

Here is how the experts of the WEF itself have commented Kazakhstan's positions in the 2006 rankings: "Kazakhstan sheds five places to reach 56 in the World Economic Forum's Global Competitiveness Index (GCI) rankings for 2006-2007. Boosted by its natural resource wealth, it experienced a major improvement in its macroeconomy, thanks to its significant government budget surplus, low debt-GDP ratio, high savings rate and a considerably reduced interest rate spread, possibly reflecting more financial market efficiency or less perceived lending risk. It also saw improvements in market efficiency, rising 8 places to rank 44, boosted by less red tape and more competition in the goods markets, but still impeded by the prevalence of trade barriers and still relatively underdeveloped or unsophisticated financial markets. The country also benefits from flexible labor markets."¹

A separate comment on Kazakhstan's competitiveness was made by Augusto Lopez-Claros, WEF's Chief Economist and Director of its Global Competitiveness Network, who played a leading role in developing the GCI: "Notwithstanding a number of bright areas, more will have to be done in Kazakhstan to improve the institutional environment. The country's top leadership has decided to give high priority to boosting Kazakhstan's competitiveness rankings. Particular attention will have to be given to dealing with widespread perceptions that the country has suffered a deterioration in the quality of its institutions related to judicial independence, property rights' protection, government efficiency, public trust of politicians and security. It also saw falls in its rankings for innovation, business sophistication and for technological readiness. The lower rank for innovation appeared to reflect perceived skills shortages related to sciences and engineering, less company spending on R&D and less university/industry research collaboration, compared to other countries. The authorities have a busy reform agenda ahead of them in coming years."²

The main problems facing Kazakhstan on the way to higher competitiveness are clearly formulated in the above comments. Both the WEF press release and the statement by A. Lopez-Claros amount to an assessment of the republic's positions in various component indexes or, as they are now called, "pillars" of the GCI. Let us take a closer look at Kazakhstan's rankings in some of these pillars (see Table 1).

The table shows that Kazakhstan ranks highest in the macroeconomy and market efficiency pillars (10 and 44) and lowest in health and primary education (86), institutions (75), business sophistication (72) and innovation (70), with intermediate positions in such pillars as higher education and training, technological readiness, and infrastructure, although its 66th and 68th places in the latter two indicators can hardly be seen as adequate to the republic's potential. In the context of implementation of its Industrial Innovation Development Strategy, two GCI pillars related to the technological dimension of national competitiveness are of particular importance to Kazakhstan: technological readiness (66) and innovation (70). By way of international comparison, let us list some of the countries that are ahead of Kazakhstan in these rankings. In terms of technological

¹ *Kazakhstan Falls Five Places to 56th Rank in the World Economic Forum's 2006 Global Competitiveness Rankings. World Economic Forum Press Release*, Geneva, Switzerland 27 September, 2006, available at [www.weforum.org].

² *Ibidem*.

Table 1

**Kazakhstan's Rankings
in the Nine Pillars of the Global Competitiveness Index**

Pillar	Rank	Score
Institutions	75	3.59
Infrastructure	68	3.33
Macroeconomy	10	5.57
Health and primary education	86	6.08
Higher education and training	51	4.28
Market efficiency	44	4.39
Technological readiness	66	3.23
Business sophistication	72	3.90
Innovation	70	3.13

S o u r c e: Calculated and compiled from the data of *The Global Competitiveness Report 2006. Executive Summary*, available at [www.weforum.org].

readiness, the republic is “outperformed” by Jordan, El Salvador, the Dominican Republic, Barbados, Mauritius, Panama, Trinidad and Tobago, and Tunisia, among others. In the innovation rankings, Kazakhstan is behind such countries as Kenya, Costa Rica, Colombia, Burkina Faso, Azerbaijan, Morocco and Nigeria. But then, such low rankings do not necessarily mean a very bad situation in the field of innovation and technology. In our opinion, these rankings are partly due to the inadequacies of GCI calculation methodology. For example, very low innovation rankings are assigned to countries with an objectively high technological level, including Russia (59), Italy (43, which is lower than Costa Rica’s 36th place) and China (46, which is lower than Chile’s 39th place). These examples show that the said rankings have significant shortcomings and cannot serve as a direct or objective indicator of an unsatisfactory situation in a certain area.

In order to assess the prospects of a rise or fall in competitiveness as measured by the GCI, let us consider some of the peculiarities of its calculation method in greater detail. In GCI calculations, the countries surveyed are divided into three groups: factor-driven economies (mostly driven by such factor endowments as natural resources and unskilled labor), efficiency-driven economies (with more efficient production processes and higher product quality), and innovation-driven economies. According to the authors of the report, the importance of each pillar depends on the country’s stage of development (they attribute “higher relative weights to those pillars that are relatively more relevant for a country given its particular stage of development”).³ In other words, the weights of these pillars organized into three subindexes differ in GCI calculations for countries at different stages of development (see Table 2).

At present, Kazakhstan is included in the group of efficiency-driven countries. Let us note, however, that the division of countries into these groups in the WEF study is not based on technological

³ *The Global Competitiveness Report 2006*, Chapter 1.1. “The Global Competitiveness Index: Identifying the Key Elements of Sustainable Growth,” p. 11.

Table 2

**Weighting of GCI Subindexes
at Each Stage of Development⁴**

Weights	Basic Requirements	Efficiency Enhancers	Innovation and Sophistication Factors
Factor-driven stage	50%	40%	10%
Efficiency-driven stage	40%	50%	10%
Innovation-driven stage	30%	40%	30%

criteria, as might be supposed, or on the level of innovation, but simply on GDP per capita, and this even without regard for purchasing power parity (PPP). As a result of this strange qualification, such countries as Kuwait, Qatar and the United Arab Emirates have been included in the group of innovation-driven economies simply because of their high GDP. For each of the three subindexes, Kazakhstan has the following scores: 4.64 (rank 51) for basic requirements, 3.97 (rank 56) for efficiency enhancers, and 3.51 (rank 74) for innovation and sophistication factors.

Kazakhstan's overall score (4.19) is calculated based on the weights given in Table 2 for countries at the efficiency-driven stage of development according to the formula: $4.64 \cdot 0.4 + 3.97 \cdot 0.5 + 3.51 \cdot 0.1$. This formula shows that under the WEF methodology the greatest potential for an increase in competitiveness and a rise in the rankings is latent in the pillars of the efficiency enhancers subindex, because the latter has a weight of 50% and Kazakhstan's score in this subindex is below its overall score (3.97 against 4.19). Consequently, faster development of the pillars included in this subindex (higher education and training, market efficiency, and technological readiness) will have the most significant effect on the increase in the republic's GCI as a whole. The greater influence of these three pillars on the overall index is easily expressed in mathematical terms. Thus, the first subindex (basic requirements) has a weight of 40% while including four pillars, which means that each of them has a weight of 10%; the third subindex (innovation and sophistication factors) has a weight of 10% and consists of two pillars, each with a weight of 5%. At the same time, the efficiency enhancers subindex has a weight of 50% and includes only three pillars, which means that each of them accounts for about 17% of the country's overall score.

Consequently, Kazakhstan's rise in the GCI rankings will be most successful given an improvement in the pillars included in the efficiency enhancers subindex. In two of these three pillars, the current situation is quite favorable: in higher education and training, Kazakhstan ranks 51st, and in market efficiency, 44th. The weak point here is the technological readiness pillar: rank 66 with a score of 3.23. Let us consider the possibility of boosting the republic's GCI performance through this pillar. In order to be 50th in the 2006 rankings, Kazakhstan should have had an overall GCI score of 4.26, or 0.07 points above the score it actually had. Our calculations show that a 0.07-point increase in the overall GCI score can be achieved through an increase in the technological readiness pillar by 0.42 points (by about 13%) to 3.648.

⁴ *The Global Competitiveness Report 2006*, Chapter 1.1. "The Global Competitiveness Index: Identifying the Key Elements of Sustainable Growth," p. 12.

For comparison: in order to ensure the same increase in the GCI score (by 0.07 points) through the innovation pillar, the latter will have to be increased by 1.35 points (by 43%) from the current 3.13 to 4.48.

It should be noted that such a methodology for calculating the GCI in effect encourages countries to conserve an irrational economic structure, because the most advanced aspects of development reflected in the third, innovation and sophistication factors subindex (business sophistication and innovation) have the least influence on the overall GCI score.

As regards the pillar in which Kazakhstan has done particularly well in the latest rankings (macroeconomy), we think the republic will find it hard to keep its 10th place in this pillar in the future. The macroeconomy pillar consists of such indicators as government surplus/deficit, national savings rate, inflation, interest rate spread, government debt and real effective exchange rate. The prospects for some of these indicators are not too encouraging. For example, starting from 2007 the country's budget does not include oil revenues, which creates the prerequisites for a budget deficit and a significant worsening of this indicator, because in recent years the republic has had a budget surplus. Another reason for a possible budget deficit is the growing pressure exerted on the domestic market by excess liquidity in the republic's pension funds, which are increasingly short of investment instruments. In these conditions, in order to prevent a decline in the profitability of accumulation pension funds (NPF) the state may be obliged to issue debt securities even if there is no particular need to finance the budget deficit. This measure, for its part, will lead to an increase in another indicator included in the macroeconomy pillar, government debt, which will also have a negative effect on this indicator. Such indicators as inflation and interest rate spread may take a turn for the worse as well. Inflation, which amounted to 3.1% in the first four months of the year, may be accelerated by the consumer boom, a massive credit expansion by second-tier banks and excess liquidity in the financial system. As regards interest rate spreads, they depend in large part on the credit ratings assigned by international financial organizations, which compile such ratings based on many factors, including macroeconomic and financial stability, and also the situation in world raw material markets, a factor crucial to Kazakhstan's economic well-being.

So, considering the above-mentioned threats to macroeconomic stability, one can expect a drop in Kazakhstan's macroeconomy rankings in the next WEF report. Given that the macroeconomy pillar has a weight of 10% in the overall Global Competitiveness Index, its decline will have a noticeable effect on the country's GCI rank. More precisely, a decline in the score for this pillar by 1 point will mean a decline in the GCI score by 0.1 point (in the latest rankings, this would have meant a GCI score of 4.09, which is equivalent to 61st place). Consequently, it would make sense to compensate in advance the possible drop in the rankings resulting from a decline in the macroeconomy pillar by boosting the higher education and training pillar and the market efficiency pillar.

The World Economic Forum's GCI rankings are not the only assessment of Kazakhstan's national competitiveness. The objective problems that exist in some areas of the republic's socio-economic development are reflected in other rankings as well. For example, technological competitiveness is assessed using the Networked Readiness Index rankings, also developed by the WEF. Based on 2005 results, Kazakhstan is 60th in these rankings with a score of 0.24, the same as that of El Salvador, which occupies 59th place. Characteristically, Kazakhstan is the best performer in these rankings among the CIS countries, followed by Russia (rank 72), Azerbaijan (73), Ukraine (76), Armenia (86), Tajikistan (93), Moldova (94), Georgia (96) and Kyrgyzstan (103). It is interesting to note that although this index was developed by the WEF (just as the GCI), Kazakhstan has lower rankings for technology in the GCI subindexes, being outperformed by some CIS countries. This discrepancy also points to the imperfections of WEF methods. Nevertheless, the problems of Kazakhstan's national competitiveness are captured not only by WEF rankings, but by other methods as well.

If competitiveness is understood not only in the narrow, technological/economic sense, but also from the position of human and social development, Kazakhstan's performance is worthy of consideration in the well-known Human Development Index (HDI) rankings compiled by the UNDP. In the recently published 2006 rankings, Kazakhstan has 79th place and is included in the category of medium human development countries, with a score of 0.774. In order to join the group of high human development countries, it is necessary to have a score of 0.800. At present, this "borderline" score corresponds to 63rd place occupied by Mauritius. In terms of human development, Kazakhstan ranks fourth among the CIS countries (behind Russia, Belarus and Ukraine). Compared to the previous year, Kazakhstan moved up one place: in the 2005 rankings, it was 80th among 177 countries (the total number of countries surveyed did not change during the year).

A comparison of competitiveness and the HDI, in our opinion, is perfectly justified. First of all, the HDI takes into account some aspects of national development which are also taken into account in calculating the GCI: life expectancy (included in the health and primary education pillar of the GCI), education level (included in the higher education and training pillar) and GDP per capita (included, even though in other indicators, in the macroeconomy and market efficiency pillars). A positive trend as regards human development indicators is that in the 2006 rankings Kazakhstan exceeded the "symbolic" level of 1990, when its HDI was 0.768. Overall, Kazakhstan's competitiveness assessed in terms of the indicators used in HDI calculations is illustrated by Table 3.

Table 3

**Basic Indicators of the Human Development Index (HDI)
for Kazakhstan, 2004**

Life expectancy at birth	63.4
Adult literacy rate (ages 15 and above), %	99.5
Combined gross enrolment ratio for primary, secondary and tertiary schools, %	91
GDP per capita, PPP US\$	7,440
Life expectancy index	0.64
Education index	0.96
GDP index	0.72
HDI value, 1990	0.768
HDI value, 1995	0.723
HDI value, 2000	0.736
HDI value, 2004	0.774

S o u r c e: Human Development Report 2006, available at [<http://hdr.undp.org>].

Out of the four indicators taken into account in calculating the HDI, Kazakhstan lags in life expectancy and GDP per capita. The latter fact is particularly important, given that progress in any

area of competitiveness—ranging from social development to technological level—is ultimately determined by the level of economic development. If national competitiveness is assessed in terms of such an aggregate as GDP per capita, in order to join the top 50 countries Kazakhstan will have to roughly triple its GDP. According to the estimates of the U.S. Central Intelligence Agency, GDP per capita (PPP) in Kazakhstan in 2005 was \$8,700, which put the republic in 92nd place among 231 countries of the world. In Bahrain, which ranks 50th in this list, the figure is \$20.5 thousand. In other words, the current gap is 2.35 times, but considering that other countries will also continue their development the gap that will have to be closed is more significant. So, if Kazakhstan is to join the 50 most competitive countries within 10 years, its average annual GDP growth throughout this period will have to be around 12-15% (depending on the rate of development of its competitor countries and population growth in the republic).

World Bank assessments based on the key macroeconomic indicators also rank Kazakhstan well below the top 50 countries. Thus, in terms of the gross national income (GNI) per capita index, Kazakhstan in 2005 (depending on the computational method used⁵) was ranked 97th (\$7,730, PPP) and 103rd (\$2,930, Atlas method).⁶ Consequently, in terms of the key macroeconomic indicators per capita as calculated by various organizations and unrelated to WEF methods, Kazakhstan is still very far from the top. In 2004, it had the following positions in the world rankings: 114th place in PPP GNI and 99th place in PPP GNI per capita. Let us add that in the World Bank classification based on PPP GNI per capita the republic is included in the group of middle income countries.⁷

These low rankings in the key macroeconomic indicators somewhat devalue Kazakhstan's high positions in the corresponding GCI rankings of the World Economic Forum, in which the country, for example, occupies 10th place in the macroeconomy pillar. But optimism over this high rank may somewhat wane if we look at the top performers in this list: Algeria (1), Kuwait (2), Qatar (3), UAE (4), Norway (5), China (6), Chile (7), Singapore (8), Hong Kong (9), and Bahrain (11, just behind Kazakhstan).⁸ These economies are not so much the most efficient as the wealthiest in relative terms. And all of them (except China, Hong Kong and Singapore) are countries oriented toward the production of hydrocarbons or, as they are usually called in Kazakhstan economic literature, raw-material-oriented countries. In other words, the method used to calculate the macroeconomy pillar is such that the highest ranks in this pillar go to countries oriented toward raw material exports. Evidently, high ranks here, however honorable, nevertheless cannot serve as evidence of high national competitiveness, unless competitiveness is understood as the "raw material" nature of development.

To return to a more detailed examination of individual socioeconomic indicators that are significant in terms of enhancing national competitiveness, let us say that, in our opinion, their number should not be limited only to the indexes used by the WEF in GCI calculations. For a real rather than a nominal increase in national competitiveness it is necessary to take fuller account of economic indicators, paying special attention to indexes of a foreign economic nature, because national competitiveness is, by definition, competitiveness in foreign markets. It is also necessary to make a more comprehensive and accurate assessment of the macroeconomic situation, particularly using relative indicators, which more adequately reflect the dynamics and quality of economic processes. Another essential aspect of competitiveness is the social sphere, the quality of human development processes and social inequality, i.e., parameters which are virtually not taken into account by the current GCI calculation method. These parameters are analyzed in annual Human Development Reports, and some of them are pre-

⁵ The World Bank calculates this indicator using two methods: PPP and Atlas method.

⁶ See: *GNI per capita 2005, Atlas method and PPP*, The World Bank Group.

⁷ See: *2006 World Development Indicators*, World Bank, Washington D.C., 2006, p. 20.

⁸ See: *The Global Competitiveness Report 2006, Global Competitiveness Index: Basic Requirements. Executive Summary*, Table 2, available at [www.weforum.org].

Table 4

**Selected Socioeconomic Development Indicators for Kazakhstan Presented
in the Human Development Report 2006**

6. Commitment to Health: Resources, Access and Services	
Public health expenditure (% of GDP), 2003	2.0
Private health expenditure (% of GDP), 2003	1.5
Health expenditure per capita (PPP US\$), 2003	315
11. Commitment to Education: Public Spending	
Public expenditure on education (% of GDP), 1991	3.9
Public expenditure on education (% of GDP), 2002-2004	2.4
13. Technology: Diffusion and Creation	
Telephone mainlines (per 1,000 people), 1990	82
Telephone mainlines (per 1,000 people), 2004	167
Cellular subscribers (per 1,000 people), 1990	0
Cellular subscribers (per 1,000 people), 2003	184
Internet users (per 1,000 people), 1990	0
Internet users (per 1,000 people), 2003	27
Patents granted to residents (per million people), 2004	—
Research and development (R&D) expenditures (% of GDP), 2000-2003	0.2
Scientists & engineers in R&D (per million people), 1990-2003	629
14. Economic Performance	
GDP (US\$ billions), 2004	40.7
GDP (PPP US\$ billions), 2004	111.6
GDP per capita (US\$), 2004	2,717
GDP per capita (PPP US\$), 2004	7,440
GDP per capita annual growth rate (%), 1990-2004	1.7
Average annual change in consumer price index (%), 1990-2004	33.6
Average annual change in consumer price index (%), 2003-2004	6.9
15. Inequality in Income or Expenditure	
Share of income or expenditure (%)—Poorest 10%	3.0
Share of income or expenditure (%)—Poorest 20%	7.4

Table 4 (continued)

Share of income or expenditure (%)—Richest 20%	41.5
Share of income or expenditure (%)—Richest 10%	25.9
Inequality measures—Ratio of richest 10% to poorest 10%	8.5
Inequality measures—Gini index	33.9
16. The Structure of Trade	
Imports of goods and services (% of GDP), 2004	46
Exports of goods and services (% of GDP), 2004	55
Primary exports (% of merchandise exports), 2004	84
Manufactured exports (% of merchandise exports), 2004	16
High-technology exports (% of manufactured exports), 2004	2
<i>Source: Human Development Report 2006.</i>	

sented in Table 4 to illustrate the key areas where Kazakhstan should enhance its national competitiveness.

The data given in Table 4 are a fuller reflection of the state of the economy and, consequently, of national competitiveness. It should be noted that in many areas the situation in Kazakhstan is quite unfavorable. For example, in R&D expenditures as a percentage of GDP the republic's performance is below the average for all regions of the world. Kazakhstan's 0.2% is much lower than the average figure for the developing countries (1.1%), the countries of East Asia and the Pacific (1.7%), Latin America (0.6%), South Asia (0.7%), CEE and the CIS (1.0%), and OECD (2.5%). There is a similar situation in public expenditure on education as a percentage of GDP. In this area, Kazakhstan's 2.4% falls short of the figure not only for the developed countries, but also for an overwhelming majority of countries in the medium human development category and for many low human development countries.

For comparison: Albania has 2.8%, Peru 3%, the Philippines 3.2%, Grenada 5.2%, Tunisia 8.1%, Fiji 6.4%, and Belize 5.1%. In low human development countries, the figures are as follows: Djibouti 6.1%, Lesotho 9.0%, Kenya 7%, Mauritania 3.4%, and Eritrea 3.8%.

In health care, the picture is very similar. Public health expenditure in Kazakhstan in 2003 was 2% of GDP, which is lower than in most countries in the medium or low human development category. As in education, health expenditure in most Asian, Latin American and even African countries is higher than in Kazakhstan. These include El Salvador, Colombia, Albania, Lebanon, Grenada, Jordan, Tunisia, Suriname, Fiji, Algeria, Jamaica, Botswana, Bhutan, Papua New Guinea, Lesotho, Zimbabwe, Haiti and many other countries traditionally included among the world's poorest countries.

Apart from showing some of the main indicators of socioeconomic development, this table demonstrates another fact as well. Many indicators from the Human Development Report coincide with those used by the WEF to assess national competitiveness, such as telephone mainlines per 1,000 people, Internet users or cellular subscribers. This fact may indicate that WEF experts simply use available U.N. data, combining them in a new way to obtain a "product" called GCI, whereas in actual fact what we have here is a truncated HDI. In such a case, it is more appropriate to assess a country's compet-

itiveness based on the more comprehensive methods and techniques of the United Nations rather than those of the WEF, whose studies are of a derivative nature and often produce inadequate assessments. It would make even greater sense, in our opinion, to recognize the need to develop our own national system for assessing competitiveness, a system that would take into account all the key factors of the republic's economic and social success in a comprehensive and systemic way.

Table 5

**Kazakhstan's Positions in Various Rankings Compiled
by International Organizations**

Ranking/Organization	Kazakhstan's Rank	Number of Countries Ranked
Global Competitiveness Index (WEF)	56	125
Networked Readiness Index (WEF)	60	115
Human Development Index (UNDP)	79	177
GDP per capita, PPP (U.S. CIA)	92	231
GNI per capita, PPP (World Bank)	97	208

To summarize our review of Kazakhstan's national competitiveness, we can say that it is fairly high only when assessed using WEF methods (see Table 5). Moreover, the republic's high places even in these rankings are ensured by only three GCI pillars out of nine: macroeconomy, market efficiency, and higher education and training. Consequently, in order to enhance national competitiveness we need progress in other areas of social, economic and technological development so as to move up in the rankings for the respective pillars and to diversify the risks of a loss of competitiveness. Another conclusion about Kazakhstan's national competitiveness is the continued low development level of a number of areas that are crucial to competitiveness (science, education and health care), as reflected in the rankings of other world organizations (apart from the WEF). What we need is further growth—at a very rapid pace—of such dimensions as GDP and GNI (including per capita) and R&D expenditures. We need to improve the quality of life for the purpose of enhancing life expectancy, prevent a further increase in income inequality, and spend much more on education, health care and science.