5

Reforming Central Asia

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It is many years, now, since the USSR collapsed, resulting in, among other things, the emergence of five independent states in Central Asia—and many years, too, since the United States and the international financial institutions began to actively seek to influence developmental outcomes in this region. This chapter looks at how these countries have fared in this period and at the effectiveness of the role of the United States and of international financial institutions in achieving their desired outcomes in this part of the world.

There is always a danger in rendering such a judgment at a fixed point in time, much like predicting the path of a bird photographed in flight. One never knows what comes next, whether the bird will soar or will plummet to the ground. Much the same can be said about the situation in Central Asia. Many who have advised these governments look at the current situation in places like Kyrgyzstan and Tajikistan and say that to dwell on what is negative in the current situation is to ignore improvements that will inevitably soon be measurable. Similarly, those who have been part of international missions that have reduced activities or closed up shop where their advice has been ignored, such as in Uzbekistan and Turkmenistan, often claim that current growth figures disguise imminent economic crises.

Evaluating developments in Central Asia is a highly subjective exercise, a classic case of whether or not to call the glass half empty or half full. One can look very critically at decisions that were made in each of these five countries and paint far rosier alternative scenarios as to what might have been achieved, given the economic starting points and education levels of the populations that lived in these states. At the same time it is possible to argue that as bad as things are, far worse might have been expected as a result of the economic collapse caused by the demise of the USSR and the risk of interethnic violence inherent in the region.

To be sure, the percentage of the population generally accepted as living in poverty has increased in four of the five countries, and no serious observer places much credibility in statistics originating in the fifth country, Turkmenistan. At the same time, though, there are no reports of famine in the region, and however idiosyncratic the state-building strategies of some of these states have been, none of these countries seems about to implode from within, nor is the prospect of interstate conflict a seemingly immediate one.

For those living in Central Asia, though, it is little consolation that things might have been worse, and things are bad enough that the World Bank already considers Uzbekistan, Kyrgyzstan, and Tajikistan to be “poorly performing states.” Only oil- and gas-rich Kazakhstan is something approximating a success story in the region, for although Turkmenistan’s government reports average wages and per capita gross domestic product (GDP) that are high enough to keep them off the list of troubled states, these official statistics are highly suspect. Even Kazakhstan is underperforming, a point reinforced in a World Bank study on the impact of systemic corruption on the Kazakh economy.

A question that comes readily to mind is who is to blame for the disappointing performance of many of these states. Is it the leaders who failed to follow the advice of the international community and either rejected the macroeconomic stabilization programs proposed to them or failed to implement them in a conscientious enough fashion, turning a blind eye to the corruption that surrounded them? Or is it in large part the fault of the international financial and assistance community, who dashed into a region that they knew little about with a lot of assumptions about how best to move these societies from point A to what the outside world saw as the desired point B?

For those living in the region an even more important question is not which states are poorly performing but whether the underperformance of all or even some of these states puts their long-term economic well-being or that

of their neighbors at risk. Certainly the underperformance of a state like Uzbekistan, which sits at the center of the Soviet-era transportation hub for all four neighboring states, has had enormous consequence for the economic recovery of the region's smallest economies, those of Kyrgyzstan and Tajikistan, inflicting a further geographic isolation that was not factored in by the Western experts who devised their macroeconomic stabilization programs.

The thesis of this chapter is that the underperformance of all three of these states puts their long-term economic well-being at risk and that the underperformance of Uzbekistan in particular poses a threat to the security of neighboring states. I argue, though, that there is no simple explanation for why these states have performed so poorly. The boundaries of these Stalin-era administrative creations were not set with an eye to self-sustaining economies, and in fact Soviet economic policies were designed to reinforce the economic dependency of the constituent parts. But geography alone holds only part of the answer. The initial frameworks of economic decision-making employed after independence were often flawed as well. U.S. advisers and Western financial institutions raced into the region prepared to apply lessons learned elsewhere, with little consideration of whether these experiences were applicable in the economic and geographic conditions of Central Asia. For their part, Central Asian leaders often felt that they knew better and could therefore ignore any advice that clashed with their own worldviews or that was not consistent with the interests of their families or those of their closest associates.

Moreover, I argue that although a shared perception held by international observers and local leaders of the poorly performing states developed over time that economic and social problems were either growing or only slowly abating, neither group was willing to fundamentally change its approach. This remains true today, despite the heightened importance of these states in U.S.-sponsored security arrangements. No priority is given to substantially increasing the resources available to help solve these nations' developmental problems, and this in turn creates few incentives for the region's leaders to change their ways.

Why Look at Central Asia?

The events of September 11, 2001, clearly brought home the risks associated with ignoring state collapse. While not every failing state will become a refuge for terrorist groups with global reach, as Afghanistan did, every failing state poses a risk to the security of its own citizens and usually to those living in

Table 5-1. *Key Economic Indicators, Five Central Asian Countries, Various Years*

Indicator	*Kazakhstan*	*Kyrgyzstan*	*Tajikistan*	*Turkmen-istan*	*Uzbek-istan*
Gross national income (US$ billion, 2001)	20.1	1.4	1.1	5.1	13.8
Gross national income (per capita US$, 2001)	1,360	280	170	950	550
Private sector percent of gross domestic product (2001)	60	60	45	25	45
Population (millions, 2001)	15	5	6	5	25
Urbanization (percent)	56	34	28	45	37
Population density (people per sq. km.)	5	26	44	11	61
Average annual growth rate per capita (percent)	13.5	4.2	4.1	18.4	2.6
Unemployment (percent, 2001)	11.0	3.2	20.0	[a]	0.6
Poverty rate (percent, 2001)	26.0	55.0	83.0	34.4	n.a.
Land area under permanent crops (percent, 1999)	0.1	0.3	0.9	0.1	0.9
Irrigated land as percent of cropland (1997–99)	7.6	75.0	82.4	106.2	88.3
Hectares of cropland per capita (1997–99)	1.99	0.28	n.a.	n.a.	n.a.
Food production index (1998–2000; 1989–91 > 100)	61.0	115.9	53.8	134.0	116.2

Source: World Bank, *World Development Indicators, 2003.*

a. Every Turkmen citizen is guaranteed employment; therefore, an official unemployment rate does not exist. According to a household survey, unemployment was 19 percent in 1998.

n.a. Not available.

neighboring states as well. Developments in Afghanistan had an impact on the lives of many Central Asians years before their influence was felt in New York City and Washington. Similarly, state failure in one Central Asian state would produce a rapid ripple effect in neighboring countries and could greatly magnify the global security risks emanating from the South Asian region. The economic data reproduced in tables 5-1 and 5-2 show a region that may be heading toward crisis and provide ample incentive to examine and rethink the developmental strategies that have been pursued in this part of the world.

Table 5-2. *Average Annual Growth Rate, Five Indicators, Five Central Asian Countries, 1990–2001*
Percent

Indicator	*Kazakhstan*	*Kyrgyzstan*	*Tajikistan*	*Turkmen-istan*	*Uzbek-istan*
Gross domestic product	–2.8	–2.9	–8.5	–2.8	0.4
Agriculture	–6.5	2.1	–5.8	–3.2	0.9
Industry	–6.9	–8.5	–13.2	–6.7	–2.6
Manufacturing	n.a.	–14.1	–12.6	n.a.	n.a.
Services	3.1	–3.9	–1.1	–3.2	4.0

Source: See table 5-1.
n.a. Not available.

An examination of the situation in Central Asia also offers a good opportunity to examine the assumptions behind some of the leading paradigms that have been applied to the problems of transition in postcommunist societies and to ask whether we erred more by initially treating these states as all quite similar or by later choosing to see the Central Asian states as relatively unique.

Initially, "transitologists" viewed all postcommunist countries as going through similar, if not identical, processes of economic and political transition. As the transition in Central Europe began before that in Central Asia, people with experience in the former hurried to apply their expertise in the latter. But when they found their successes from Central Europe hard to duplicate, they began arguing that the transitions in the Central European states, as well as in the Baltic republics, were really quite different from those of the post-Soviet Central Asian states, because the former group of countries had a history of prior statehood that the others (save Russia) lacked. The nature of their interwar experiences in particular explained why many of these Central European states had an easier time transforming their centrally planned communist economies into market-based ones and seemed to be making relatively smooth transitions to democratic or quasi-democratic political systems.

By the mid-1990s it was clear that the post-Soviet Central Asian states were proceeding more slowly with reform than had the countries of Central Europe, but it was not self-evident that differences in their history were the cause. Some of the blame obviously lay with decisionmakers in the Central Asian states, who proved more unyielding to Western advice than their counterparts elsewhere. But much of the responsibility also lay with foreign

advisers, who generally applied a cookie-cutter approach to reform. When this approach failed to result in the desired outcomes, doubts were raised on the wisdom of the goals rather than on the process of implementation. Western sources of aid began arguing that many of the post-Soviet Central Asian states were not "ready" for political and economic reform, given their long experience under the Russian and Soviet colonial "yoke," views that were encouraged by Central Asia's ruling elite. These apologists of failed reform hid behind simplifications of history that were no less crude than the earlier renderings of Soviet scholars.

Information that got in the way was conveniently forgotten, such as the fact that by many macroeconomic indicators two Central Asian states, Kazakhstan and Kyrgyzstan, were ahead of the other post-Soviet Central Asian states or at least nearly keeping up to Russia. Kyrgyzstan was the first of these states to engage in financial restructuring, and Kazakhstan has one of the two strongest banking sectors among the Central Asian Soviet successor states, having received positive investment ratings more quickly than did Russia. Both Kazakhstan and Kyrgyzstan have introduced private ownership of land, albeit with some restrictions, and both countries have reorganized pension systems, health care systems, and education systems in an effort to make them financially self-sustaining.

Nonetheless, despite these areas of high performance, Western observers have not been willing to hold any of the Central Asian nations to the same standards that were applied in Central Europe, allowing them to hide behind the curtain of their "Asianness" and to emphasize the importance of a "history of prior statehood." But given the strong performance of a number of Asian economies, the invocation of Asianness is a slippery concept. It is one that is generally used by the Central Asian leadership to justify a model of economic development that is partnered with strong one-man or oligarchic rule and that sees little value in political liberalization until some very distant future.

The absence of prior statehood is an even more amorphous idea, as the region's leaders simultaneously stress the newness of their nations as well as the ancientness of their peoples. Here too history has been rewritten to create an argument of "statehood restored." The Kyrgyz even planned to commemorate the 2,200th anniversary of statehood in 2004.[1] At the same time, few in the region would disagree with the claim that the ideological glue of nationalism based on "statehood denied" was in relatively short supply. It is less clear how important nationalism is in predicting success in economic and political reform. In Russia, nationalism has been both a complicated and complicating factor, as it is difficult to separate what was Soviet from what

was Russian, making both potentially destabilizing to the redefined Russian state. Georgia and Armenia, states that view independence as "statehood restored" (regardless of how the broader international community views it) have had economic and political transitions as difficult as post-Soviet states in Central Asia.

There were small nationalist movements throughout Central Asia in the late Soviet period; the largest proportionally was in Tajikistan, the largest in absolute numbers was in Uzbekistan, and the smallest in both absolute and proportional terms was in Turkmenistan. Ordinary Central Asians also had complex feelings about both Russian domination and Soviet rule, which they saw as overlapping but not identical. Most of the nationalist movements in Central Asia were movements for cultural and political autonomy and became independence movements only after it was apparent that the USSR would not survive.

This does not mean that Central Asians were less fit to build states than were their counterparts in other parts of the Soviet Union. Levels of educational attainment in Central Asia were somewhat lower than in most other parts of the Soviet Union, but they were very high when compared with most non-European countries. The majority of Central Asians lived in rural areas, but each republic had an industrial sector, and factories were frequently located in rural settings. More important, the gap between rural and urban was easily breeched through the mobility provided by Red Army service, through universal access to merit-based higher education, and through the hospitality provided by even distantly related urban family members bound by obligations of kinship. If anything, the gap between urban and rural was much smaller in Central Asia than in Russia or other European parts of the Soviet Union, where there were not always the same cultural supports for upward mobility.

Structural distinctions play a larger role than cultural ones in explaining the developmental pattern in Central Asia. The nature of the transition in Central Europe after the dissolution of the USSR was fundamentally different from that of other areas of the former Soviet Union. For Central European states, the end of communism meant throwing off the influence of a powerful foreign power that largely dictated local economic and political conditions. A much more difficult transition was being attempted in Central Asia, as a vertically integrated whole was being divided into parts.

True, in Central Europe Czechoslovakia split into the Czech and Slovak republics in 1993, but that was a very simple division compared to the experience of the USSR as a whole, which included lopping off three republics

from the USSR and then dividing the remaining whole into twelve uneven parts, each of which received a fragment of a previously integrated economy. It is often argued that the whole of an economy is much more than the sum of its parts, and the economies of many of these newly independent post-Soviet republics became less valuable when they were severed from the rest of the country. Even resource-rich republics that stood to gain from integrating directly with the global economy faced a difficult transition period before the value of their assets could be realized, given the relative geographic remoteness of the Central Asian and Caucasian states.

The transition to a market economy was a great deal more complicated in the Central Asian post-Soviet states than in Central Europe, where varying degrees of private ownership had survived forty years of communist rule and where it was sometimes possible to have hard currency. A restrictive form of cooperative ownership was introduced in the 1980s, where virtually none existed before. Even then, those engaged in newly legalized forms of foreign trade had limited access to hard currency. But these conditions left the Central Asian states no more or less prepared for the transition to the market than the other post-Soviet states, save for their geographic isolation. In fact, Uzbekistan, much like Azerbaijan and Georgia, seemed better prepared for the transition to a market economy than many other parts of the Soviet Union, because in Uzbekistan (and these other states) there was capital accumulation in the Soviet period, through the functioning of the gray economy.

One could say that the Uzbeks are natural entrepreneurs, as tens of thousands of Uzbeks found ways to bend the rules in the Soviet period to accumulate capital, selling goods that they themselves produced or had managed to steal from the state. They were so successful that a parallel economy existed in Uzbekistan alongside the formally sanctioned Soviet one, with surcharges for goods and services levied on top of the official Soviet price structure, effectively reflecting what the market would bear.[2] Within a few years of independence, though, President Islam Karimov decided to restrict the development of an entrepreneurial class, largely for political reasons.

By contrast, the two countries in the region that have gone the furthest with market reforms, Kazakhstan and Kyrgyzstan, seemed to have the least preparation for it. Although the Kazakh elite in particular had been skilled at managing the old Soviet economic system to both personal and republic advantage,[3] neither the Kazakhs nor the Kyrgyz were particularly entrepreneurial, nor did either have a history of private property ownership. In fact, the opposite was true: in a nomadic culture, land is for communal usage, and

even livestock were largely held in common. Yet both of these countries embraced comprehensive macroeconomic reforms and privatization programs, which have enjoyed reasonable success. This further calls into question some of the assumptions about what Central Asians could or could not be expected to do and makes the question of why Kyrgyzstan is a considered a poorly performing state a particularly important one.

Who Is to Blame for Central Asia's Poor Performance?

There is no simple answer to this question. As the following case studies make clear, several factors are at work, and these played out differently from country to country. Part of the blame for Central Asia's poor performance rests with the approach applied by the international developmental community, which sent experts to the region who had little knowledge about local conditions but who had no lack of confidence about their ability to suggest appropriate strategies of reform. Some of the assumptions made about what it would take to sustain economic growth in Kyrgyzstan, as well as in Tajikistan, were unjustly optimistic and failed to consider the isolation of the region and the potentially crippling interdependence of these states.

This lack of local experience proved quite costly in, for example, Kyrgyzstan, which accepted international guidance rather uncritically. The international community used Kyrgyzstan as a laboratory for reform, and President Akayev felt compelled to accept the advice, largely because of the paucity of economic alternatives. This approach paid off. Per capita international aid in Kyrgyzstan, as table 5-3 shows, was the highest in the region, twice its nearest competitor and five and even ten times more than other Central Asian states.

The reforms were also undermined by corruption, which is endemic in the region, reaching from presidential administrations down to the local level of government. Reformers hold out hope that as the capacity of these political systems increases, through structural reforms that penetrate to the most local level of government, corruption will begin to lessen. Patterns of economic growth will be sustained, they argue, allowing governments to raise the revenues necessary to finance restricted social welfare systems. There is no question, though, that corruption is sufficiently pervasive as to be a major challenge to economic development in all five Central Asian countries. The Transparency International Corruption Perceptions Index of 2003 assigns both Kazakhstan and Uzbekistan a country rank of 100, awards Kyrgyzstan 118th place, and Tajikistan 124th (which it shares with Azerbaijan). Turkmenistan is unranked because of the unavailability of data.[4]

Table 5-3. *Average International Aid per Capita, Five Central Asian Countries, 1994–2001*
US$

Country	*World Bank*	*International Monetary Fund*	*RDB*	*Asian Development Bank*	*U.S. Agency for International Development*
Kazakhstan	9.6	–0.6	2.7	29.9	17.5
Kyrgyzstan	10.8	3.9	9.8	4.4	29.7
Tajikistan	3.8	2.5	1.0	28.7	7.8
Turkmenistan	1.3	0	0.9	. . .	6.9
Uzbekistan	1.7	0.7	1.1	29.9	3.5

Source: See table 5-1 and the websites of the international funding institutions.

Corruption was a factor in Central Asian life throughout the last decades of the Soviet period, and whether it is an inherent part of Central Asian culture is a question of considerable debate. The Transparency International figures support the conclusion of most observational data: that corruption has worsened since independence. With the removal of the overlords in Moscow, the perquisites of power increased in both relative and absolute terms, fed by direct access to hard currency and to the money available from the ability to regulate investment as well as both legal and illegal trade. This is especially true of oil- and gas-rich states like Kazakhstan and Turkmenistan, but even in the poorer states there has been no shortage of opportunities for corruption among the ruling elite everywhere in the region.

Corruption in Kazakhstan largely centers on the president and his family, and an ongoing investigation into the Kazakh oil industry in U.S. district courts in New York City has already resulted in two arrests of American businessmen.[5] President Nazarbayev has admitted to the existence of Swiss bank accounts that held some US$2 billion; he maintains that this money was deposited abroad as a way to protect the funds, a claim few believe. But Nazarbayev, whose son-in-law is the number-two figure in the state oil and gas company, is not the only one to profit from abuses in the sale of Kazakhstan's oil. Shady transfer transactions are the source of most of the US$2,011 million of goods sent from Kazakhstan to the Bahamas in 2002, a trade that the Kazakh government and state oil company have been unable to control.[6] The shift from state control to partial private control of Kazakhstan's gold, chrome, copper, coal, and steel industries has not been done transparently

and has been the source of repeated rumors and controversy as to who in power profited from it.[7] The economies of both Kyrgyzstan and Kazakhstan may be able to withstand the negative effects of corruption. As table 5-1 shows, both have experienced high growth rates in recent years, and both have strong private sectors. Unlike Kyrgyzstan, Kazakhstan is a potentially wealthy state—and a diverse one economically, as well. Moreover, the creation of a National Fund in 2000 to invest windfall income from mineral resource development may further stimulate the diversification of the Kazakh economy.

There is simply no dependable statistical information coming out of Turkmenistan that can be used to approximate the scale of unregulated or illegal economic activity, as much of it centers on one person, the country's president, Saparmurad Niyazov. The country's key export, gas, is sold in a part barter arrangement, in which the seller is the Turkmen state, as represented by Niyazov, and the purchaser is Russia's Gazprom. All other foreign trade is also subject to Niyazov's approval, and his power is effectively unchecked.

The drug trade is at the center of corruption in Turkmenistan and Tajikistan and is a major source of corruption in Kyrgyzstan and probably in Uzbekistan as well. In the last three cases the state has been partially suborned through payments made by drug traffickers, while in Turkmenistan, the state (or more accurately, the president) seems to have captured the trade. Even in Tajikistan, the scale of the drug trade is large enough to fully eclipse most forms of legitimate business, although this is not reflected in the country's official statistics or the evaluation of them offered by its major financial advisers.[8]

Bad decisionmaking has reinforced the damage done by pervasive patterns of corruption. The refusal to take aggressive steps to reduce corruption is sometimes justified in part as a "strategy" of development in which key members of the regional elite are given an incentive to support the political incumbent. This is an explanation for at least some of the corruption in the cotton economy of Uzbekistan and Turkmenistan, as local elites were permitted to pocket some of the profits of this state-dominated sector, in the interests of stability. It is also a reason why the Rahmonov government in Tajikistan turned a blind eye to drug trading organized through the city government of Dushanbe. Obviously this is a questionable as well as dangerous way to maintain stability, encouraging the creation of a spiral of corruption rather than a stable platform from which to build a development strategy.

While all the regimes have preached the importance of stability, in most cases there has been a high turnover of local elite, and frequently this has not

served the cause of increased professionalization. The ranks of the regional elite have been thinned to dysfunctional levels in Turkmenistan, while the sums of money involved in Tajikistan's drug trade have left the central government in incomplete control. The persistence of rent-seeking behavior of local elites, and their passing on of the spoils, has created enormous disincentives for governments in Central Asia to introduce local election of regional leaders. The Kyrgyz and Kazakhs have begun the slow transition to election of district leaders, with election of governors said to gradually follow.[9]

In general, Uzbekistan's status as a poorly performing state owes much to the decisionmaking models applied by President Islam Karimov, a Soviet-era economist who ran the state planning bureau of Uzbekistan (Gosplan) from 1966 to 1983.[10] As such, Karimov believed himself an expert in the workings of the global market, and his harsh political regime created little incentive for advisers with Western training to argue against Karimov's isolationist policies. He understood political economics in Marxian terms and feared that the nascent entrepreneurial class in Uzbekistan would be successful in their adaptation to market conditions and demand political power commensurate with their economic power.

As important was Karimov's fear of the social consequences of a rapid deregulation of the economy. In the early 1990s radical Islamic groups were gaining in popularity, especially in the densely populated Ferghana Valley, where over 60 percent of the population was under twenty-one. The civil war in Tajikistan, which was at its bloodiest in 1992–94, created a frightening specter for Karimov (and his fellow Central Asian leaders) of what could happen if the struggle for political power spun out of control. For Karimov, though, the problem was more than just imitation. He feared that Uzbekistan would become a place of refuge for Tajikistan's displaced religious elite, as well as its masses, and that the influx of ethnic Uzbeks or ethnic Tajiks from Tajikistan posed a threat to Uzbekistan's own delicate ethnic balance. But Karimov overestimated how far Uzbekistan's hard currency earnings, from gold sales as well as from cotton, would go to maintain the country's social welfare system.

Moreover, Karimov's decision to restrict private ownership and to retain strong state control led to a strict trade regime, as Tashkent's policies of price supports created strong incentives for the export and resale of basic commodities bought on the Uzbek market. To prevent this the Karimov regime effectively sealed off the country from trade with neighboring states. Uzbekistan, the region's previous transportation and communications hub, shares borders with Kazakhstan, Turkmenistan, Kyrgyzstan, and Tajikistan, and passage

through Uzbekistan was vital for traders in the latter two countries to reach markets in Russia and Kazakhstan.

Uzbekistan had the capacity to become an important regional producer of processed foods, clothing, and textiles, but Karimov's policies hurt hopeful Uzbek entrepreneurs and those in Kyrgyzstan and Tajikistan as well, diminishing the impact of wide-reaching economic reforms, in the former country in particular. While Karimov's isolationist policies were driven primarily by his understanding of the country's economic and political security needs, there was an element of spite in these policies as well. After bombings in Tashkent in 1999, allegedly done by the Islamic Movement of Uzbekistan (whose members took refuge in Tajikistan and then entered Uzbekistan from Kyrgyzstan), the Uzbeks literally fenced themselves off from their neighbors by delineating and then mining their borders.

The development of a strong regional market—reaching from Central Asia into western Siberia, down into Afghanistan and even eastern Iran—would have been to the benefit of all five Central Asian states. But the atmosphere of competition that dominated in the region made this a near impossibility. The region's five presidents competed among themselves for international preeminence, with the rivalry being especially keen among Islam Karimov of Uzbekistan, Nursultan Nazarbayev of Kazakhstan, and Saparmurad Niyazov of Turkmenistan, all of whom served together in Mikhail Gorbachev's last politburo. In true Soviet fashion—and even Kyrgyzstan's Askar Akayev and Tajikistan's Emomali Rahmonov had held vetted posts in the USSR—Central Asia's leaders substituted "virtual" cooperation for real economic cooperation.[11] In 1994 they created a Central Asian Cooperation Organization, which, however, lacked the authority and institutional capacity to manage economic relations among the member states.[12]

The existence of the Central Asian Cooperation Organization has done little to improve trade among the member states, largely because of Uzbekistan's policies. In 2002 the International Monetary Fund rated Uzbekistan a 9 on a scale of 1 to 10, with 10 representing the most restrictive trade policies possible. By contrast, Kyrgyzstan and Tajikistan are each rated 1.[13] Even within the current difficult trade environment, the three poorly performing states remain important partners for each other, accounting for 13 percent of total exports and 14 percent of imports; when Kazakhstan is added, regional trade amounts to almost 20 percent of Kyrgyzstan, Tajikistan, and Uzbekistan's trade total.[14] Given the limited purchasing power of the populations of these states it would be a mistake to romanticize the capacity of each of them to serve as a market for any of the others, but a freer trade regime would have

provided greater (and in some cases critical) markets both for start-up small- and medium-sized enterprises and for existing firms trying to make the transition to market conditions. Some of the Soviet-era economic linkages were clearly unprofitable and ill suited to market conditions, but others made good economic and geographic sense.

The relative importance of regional cooperation has been a much debated question among economic observers of the region, who rightfully point to the need for each of these states to orient itself to a global market, especially with regard to the development of its natural resources. But this argument minimizes the importance of the local regional market for creating employment and opportunities for economic diversification. This market is not insubstantial: it includes at least 75 million people when neighboring parts of Russia are included, and it could be reached without great transportation costs if cross-border transit were improved. Transportation costs to more distant markets in the United States, Asia, and Europe are quite high, much higher than from China or Pakistan, both of which are competing producers with lower labor costs. Here the opportunity costs have been experienced everywhere in the region, except for Kazakhstan, where since 1998 in particular there has been a synergy between Russian and Kazakh capital, especially in agrobusiness.

As we see in the more detailed accounts provided below, the failure to appreciate the importance of the regional market diminished the potential success of the developmental paradigm that was being imposed on Tajikistan and Kyrgyzstan in particular, making the economic targets necessary to minimize long-term debt virtually unattainable. Moreover, the nature of the debt (much of it was going to foreign consultants and to the purchase of foreign equipment) created an atmosphere of distrust toward Western institutions, which will continue to influence domestic politics throughout the region.

Kyrgyzstan: Eager to Reform and Failing to Thrive

Kyrgyzstan is classified as a low-income, highly indebted country by the World Bank, but it has been the most receptive country in the region to international advice. Kyrgyzstan is the best performing of the poorly performing states in the Central Asia region.[15]

Specialists in the international financial community find it easiest to work with the Kyrgyz, who bring the highest degree of professionalism to their work. But one result of this is that Kyrgyzstan has the highest debt-to-income ratio in Central Asia (table 5-4). While some of this debt is the result

Table 5-4. *External Debt Management, Four Central Asian Countries, 2001*[a]

Country	*Debt as percent of GNI (present value of debt)*[b]	*Debt as percent of exports of goods and services (present value of debt)*[b]	*Total external debt (US$ thousand)*	*Total debt as percent of GNI*
Kazakhstan	67	134	14,372,200	39
Kyrgyzstan	91	223	1,716,700	150
Tajikistan	83	120	1,085,600	125
Uzbekistan	40	138	4,627,100	. . .

Source: See table 5-1.

a. Turkmenistan is not included because its statistics gathering is held faulty.

b. The present value of debt is the sum of short-term external debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private nonguaranteed long-term external debt over the life of existing loans.

of unpaid energy bills to neighboring countries, most of it is a result of external borrowing. One positive aspect to this debt is that it has forced the country into debt restructuring programs. In addition, the Paris Club in March 2002 gave international financial institutions a critical lever to press the government of Kyrgyzstan into greater fiscal responsibility.[16] Current assistance money is also being much more closely supervised than previous funds in order to prevent the kind of pilfering of assistance money that is said to have occurred in the first seven or eight years of independence. However, debt service is the highest in Central Asia (91 percent of gross national income and 223 percent of the value of exports of goods and services; see table 5-4).

Kyrgyzstan has a very small economy, with little prospect of significant expansion. In 2001 its gross national income was $1.4 billion, or $280 per capita. At the same time, though, Kyrgyzstan (which, like all of the Central Asian countries, experienced a decline in its gross domestic product for the period 1990–2001) has had a faster rate of recovery than some of its neighbors (tables 5-1, 5-2). In addition, the privatization of small- and medium-sized enterprises has been effectively completed (approximately 60 percent of the population is engaged in this sector, which produces 43 percent of the national product). By July 2002 the overall level of privatization had reached 69.7 percent; although there is still only limited legal protection of private property, the Kyrgyz government has pledged to improve this protection as part of its poverty reduction strategy for 2003–05.[17]

The withdrawal of the state from the economy in Kyrgyzstan has not been without costs for the country's population. According to the government of

Table 5-5. *Kyrgyzstan Regional Overview, by Oblast*
Percent

Oblast	*Total population*	*Population living in poverty*[a]	*Share of region's GDP*	*Unemployment*
Batken	8.0	41.2	3.8	9.1
Jalal-abad	18.3	55.0	14.2	18.7
Osh	24.5	56.1	11.7	16.3
Talas	4.2	67.3	3.8	3.0
Issyk Kul	8.5	55.2	17.0	8.3
Naryn	5.2	70.4	4.1	11.8
Chui	16.1	29.2	21.2	16.0
Bishkek City	15.9	29.5	24.3	16.3

Source: Government of Kyrgyzstan: National Poverty Reduction Strategy, 2003–2005; Comprehensive Development Framework of the Kyrgyz Republic to 2010; Expanding the Country's Capacities, National Poverty Reduction Strategy 2003–2005; Regional Development in the Kyrgyz Republic, chapter 5. Available on the World Bank website.

a. A region is considered to have extreme poverty if 21.3 percent of its population is poor.

the Kyrgyz Republic, 47.6 percent of the population was living in poverty in 2001, pockets of poverty being unevenly distributed across the country; 88 percent of the population lives on under US$4 a day.[18] Unemployment in Kyrgyzstan, as elsewhere in the region, is difficult to measure as so much of employment still goes on off the books, to avoid the payment of taxes.[19]

One of Kyrgyzstan's burdens is closing the gap between north and south, a gap that is geographical as well as cultural and economic (table 5-5).[20] The country's ruling elite has always come disproportionately from the more industrialized north, whereas more than 40 percent of the population lives in the more densely populated, predominantly agricultural south. This population density as well as its predominantly young age make the question of poverty and unemployment a question of national security.[21] The government strategy for alleviation of poverty is sensitive to these regional factors, and poverty levels in the south are being reduced faster than the republic average.

While the international community is now gearing up to help Kyrgyzstan fight the country's poverty problem, there is still no broad public recognition of the fact that it helped to contribute to it through the sums of money that Kyrgyzstan borrowed in the process of trying to reinvent its economy along market-driven principles. Certainly the government of Kyrgyzstan could have been more responsible in administering the international funds that it received. Unfortunately, there is no systematic study of how much money

went astray; most of the worst abuses seem to have been in the allocation of foreign credit by the government to favored entrepreneurs under highly favorable terms, which effectively allowed them to accumulate personal capital at state expense.

But the sums allocated, and most of the guidelines on how this money was to be spent, were set by the international institutions funding projects in the country, and the leadership of the country had very little bargaining clout to press for more grants, aid, and loans. The size of the awards to Kyrgyzstan was determined in large part by international advisers' unrealistic expectations about how rapidly Kyrgyzstan's economy would grow, and these expectations further fueled the naive assessments of the Kyrgyz. There was reason to hope that by being "first through the gate" on questions of economic investment the Kyrgyz would attract foreign capital. In conditions of freer trade, Kyrgyzstan would have had a smoother economic recovery. But the Kyrgyz and their international advisers both underestimated the inherent fragility of the Kyrgyz economy and overestimated the country's capacity to compete in the global market.

It is clear that not all of the earlier unfounded assumptions have been sufficiently discredited. Food security is still a priority, and the Kyrgyz government deserves a great deal of credit for promoting the most wide-reaching agricultural reforms in the region. But there are real limitations as to how much growth in the agricultural sector Kyrgyzstan can hope to achieve. As table 5-1 shows, Kyrgyzstan's food production has improved considerably since independence, more than in any other country in the region (with the exception of Turkmenistan, whose figures are suspect). But the amount of cropland available per person is limited (.28 hectares) and cannot be increased substantially without changes in the water distribution pattern to downstream states. Nevertheless, both the International Development Association and the International Monetary Fund have criticized the Kyrgyz for failing to develop measures to create an environment for greater private sector participation.[22]

Some further expansion of light industry is possible, and an improved legal environment, combined with Kyrgyzstan's favorable tax regimes (Kyrgyzstan's tax is under 20 percent), will give Kyrgyzstan an edge should regional trade restrictions ever be reduced. But it is hard to envision Kyrgyzstan's industry developing a strong regional presence, given the increasingly commanding position occupied by new or substantially reorganized Kazakh and Russian enterprises in the region. While Kyrgyz government economists

offer both optimistic and less optimistic scenarios for growth, they recognize that the former would require a dramatic change in the trade and investment climate in the region. But even the more pessimistic scenarios (that gross domestic product will attain a growth rate of 5 percent annually, as opposed to 7 percent in the alternative scenarios) will be difficult to achieve.[23]

Still, the country's principal economists hold out hope that Kyrgyzstan will develop into a regional transport center, serving as a "doorway" to China, as both countries are World Trade Organization (WTO) members. Kyrgyzstan has used substantial amounts of foreign assistance money toward improving transport linkages within the country, to the Tajik border, and to the Chinese border, but the failure to develop a strong regional demand for trade has meant that these road improvements have led to little new revenues for transit traffic through Kyrgyzstan.[24]

A number of structural impediments to expanding trade are caused by Russian and Kazakh displeasure over the Kyrgyz decision to enter the WTO unilaterally. Russia and Kazakhstan subject Kyrgyz goods to high fees and bribes to move goods across borders and intranational checkpoints in Kazakhstan and Russia. Road transport costs from Kyrgyzstan are estimated to average 10–15 percent of total costs, of which only about one-third are fuel costs.[25] Both Russia and Kazakhstan favor a uniform tariff system among states partnering in a free trade regime, at least until 2005, and both of these states are important trading partners of Kyrgyzstan.[26]

Kyrgyzstan also had overly optimistic plans to substantially expand its gold mining sector. The extraction of any of these deposits would entail substantial environmental risks, and the Kyrgyz population has become increasingly more ecologically risk averse in the aftermath of cyanide-related deaths caused by working in the country's large Kumtor field.[27]

Plans to seek major international investment to expand Kyrgyzstan's hydroelectric industry are also problematic. Soviet development schemes posited the development of gigantic new power stations in both Kyrgyzstan and Tajikistan, and the building of any of these would substantially increase the export potential of the countries involved. But the development of hydroelectric power is irrevocably tied to the larger question of control of access by downstream users of the Syr Darya and Amu Darya rivers, whose headwaters lie in Kyrgyzstan and Tajikistan, respectively. Under current economic conditions, for Kyrgyzstan or Tajikistan to unilaterally divert large quantities of water to export-oriented hydroelectric projects would be to risk war with Kazakhstan and Uzbekistan. The one likely investor in both Kyrgyzstan and

Tajikistan is Russia's energy giant UES, which is trying to unify the Russian and Central Asian energy grids in order to sell Russia's surplus energy in Europe. This quasi-government entity would provide a secure environment for the expansion of Kyrgyz and Tajik hydroelectric industries but would not maximize local income potential.

There is a similar situation in the gas sector, wherein Russia's Gazprom is making a bid to acquire assets throughout Central Asia, planning to reinvest regional profits in local transport networks. This too would likely lead to little new economic growth for the Kyrgyz, as plans for developing new Kyrgyz oil and gas fields are relatively capital intensive, given the small size of these deposits and the abundance of energy in neighboring states.

Tourism is another area that the government of Kyrgyzstan has targeted for growth with little prospect of achieving its goals. Tourism currently accounts for nearly 4 percent of the country's gross domestic product. Although the Kyrgyz would like to encourage "exotic" tourism by Europeans and Americans and recreational tourism by South Asians, the country has virtually no international connections with the outside world and a real dearth of first- and second-class tourist facilities.[28] The Kyrgyz are in direct competition with Kazakhstan's larger and better developed leisure industry, which is being built to serve the needs of that country's large expatriate business community.

Finally, Kyrgyzstan's poverty alleviation strategy is undermined by the pervasive atmosphere of corruption in the country. While the country's anticorruption policy claims to target everyone, in reality the president and his family and his close associates and their families are all effectively immune from prosecution. How corrupt the members of the Kyrgyz ruling class have been is of course a matter of debate, but they are perceived as corrupt, and this helps fuel the corrupt behavior of others. Although opposition politicians' claims that the ruling class has a stranglehold over Kyrgyzstan's economic life may be exaggerated, President Akayev's relatives have accumulated a great deal of economic power, and the family's empire has sometimes grown through forcing legitimate businessmen to abandon their property.[29] The increased professionalization of the security services and the judiciary will do little to keep those who are "above the law" from meddling in the economy without constraint, as currently the president of Kyrgyzstan and his immediate family are exempt from legal prosecution.

Although initially President Akayev was considered a hero because of his ability to garner so much international assistance to Kyrgyzstan, now these same policies are the cause of a great deal of public criticism, in large part

because of growing rumors about the corrupt nature of the regime. The Kyrgyzstan of today is a less open society than it was a decade ago, in part because of the poorer-than-expected performance of the economy. Clamping down on political opposition is reducing public criticism of the president, but it is not increasing public confidence in the government, nor is it increasing public support for economic reform.

It is hard to predict whether the failure of the current Kyrgyz government's poverty alleviation strategy will be the source of serious social or political unrest. Leading local economists believe that the income of the Kyrgyz population is twice as large as indicated by the official statistics, given how much of the population hides income to avoid taxation. Certainly life around the capital city of Bishkek indicates the existence of a small but growing middle class as well as a very small upper class. But at the same time, it is clear that the economic recovery of the country is disproportionately in this city and the surrounding Chui oblast.[30] One of the consequences of this is the growing problem of internal migration, from the poorer and more densely populated regions to the capital. Internal migrants are said to account for 83 percent of the new population in Bishkek, contributing to a growing housing, employment, and crime problem in the capital.[31] Kyrgyzstan is also falling deeper into the opium and heroin drug nexus that originates in Afghanistan and trades through Tajikistan and Kyrgyzstan and then on to Russia and Europe.

Many also blame the unevenness of Kyrgyzstan's economic recovery for the growth in popularity of extreme religious groups, like Hizbut Tahrir, which advocates the creation of an Islamic caliphate. Although Hizbut Tahrir has been declared illegal in both Kyrgyzstan and Uzbekistan, it is attracting membership from among both Uzbek and Kyrgyz youth in the south of Kyrgyzstan. One of its reported attractions to these young men is the group's payment to them of betweenUS$50 and US$100 a month for leafleting. Hizbut Tahrir is centered in Uzbekistan, where it is the subject of a campaign to eliminate it, in part because the group is rumored to have financial ties to Osama bin Laden.

The treatment of religious and secular opponents has brought considerable international criticism of the Akayev regime in recent years. In general, dialogue with the Kyrgyz government on questions of political reform has grown more strained, leading those in the development community who see the creation of a democratic polity as a condition for securing economic reform ever more pessimistic about Kyrgyzstan's chances. Yet for now, at

least, Kyrgyzstan seems to have largely maximized its chances for international recovery, through taking Western advice, be it good or bad, and by being diligent enough in applying it that the Paris Club nations rescheduled large amounts of the ensuing debt.

Tajikistan: Can Its Failing Economy Be Helped?

Generally considered among the very poorest of the Soviet republics, Tajikistan has the smallest gross national income in Central Asia (see table 5-1). In 1998 the Tajik government began to work closely with advisers from international financial institutions to devise and execute a policy of macroeconomic reform. The results are not encouraging, and there is reason to question the capacity of the Tajik government to make them work.

Most who have studied the economy of the country have little confidence in the government's capacity to break a poverty cycle begun under Soviet rule and accelerated by years of civil war, despite the modest goals the government has set for itself, hoping to drop poverty levels to 75 percent by 2006 and to 60 percent by 2015.[32] In 2001 only 56 percent of all able-bodied citizens were reported to be employed, but there is strong reason to distrust these statistics. The three top sources of income for the population of Tajikistan are participating in the illegal drug trade, working for foreign-sponsored nongovernmental organizations (NGOs), and remittances from migrant laborers working largely in Russia.[33] The relative ranking of the three income sources varies somewhat from year to year. Of the three sources, only income from NGO jobs would be reported.

It is hard to identify a realistic strategy for Tajikistan to reverse the destructive trends in its economy. Many of these trends are the result of the devastating civil war, begun in the waning days of the USSR and not really concluded until the signing of a peace agreement among most of the regional factions in 1997. The war is estimated to have cost about US$7 billion, and it left one of the poorest economies of the former Soviet Union in virtual ruin.[34] Projects designed to help the country rebuild have added substantially to Tajikistan's debt to neighboring states, much of it accumulated during the civil war.[35] But the legacies of the civil war also make it difficult for Tajikistan to discharge this debt. In part the problem is one of human resources: there has been an enormous outflow of talented people of all nationalities, and even ethnic Tajiks are reluctant to return home if they have any other economic choices.

All the other Central Asian countries were able to begin the process of state building with a relatively complete bureaucratic apparatus. While this had many minuses, as many bureaucrats were ill prepared for their new tasks, the presence of functioning bureaucracies that penetrated down to the local level made the delivery of social services much easier, even if they were to be financed in new ways. The regional nature of the fighting made it seem imperative to the winning side to largely redefine the country's administrative units, and many talented people were pushed from their positions simply for backing the wrong side.[36]

One further result of the war is that there is substantially less trust of government in Tajikistan than elsewhere in the region, and this lack of trust has further exacerbated the government's difficulties in collecting revenues, even from legitimate businesses. Money from the drug trade has also helped fund a commercial revival, especially in the capital city of Dushanbe, and most of those engaged in construction, the service industry, and retail trade keep two sets of books to hide employees and revenues from government inspectors. As a result, Tajikistan is likely to have a lingering account deficit.

Although patronage is a problem throughout the region, the Tajik government has been more vulnerable than other countries to its pressures, which complicates privatization in particular. By November 2001 only 359 of 1,500 medium-sized and large state enterprises had been privatized, in part because the government was incapable of creating a transparent tender process. Privatization has also been hampered by unrealistically high prices, the paucity of solvent bidders, and the almost total unavailability of credit.[37] Many state-held assets also have little appeal to a commercial buyer.

The economic prospects of Tajikistan are thus very bleak. As with so many of these countries, the agricultural sector has increased in importance, but the country is trapped in the conundrum of whether to grow cash crops (mostly cotton) or food (table 5-1). But Tajikistan has not demonstrated the ability to become an efficient food producer. Part of this is the result of the deterioration of agriculture during the civil war years, but it also is a reflection of the almost completely unreformed nature of Tajikistan's agriculture. The Soviet-era industrial base is also in disarray. Factories have closed, and the country's major export facility, the Turzunsade Aluminum Smelter, requires considerable investment. Most of the supervisory class has left the country, and the skills of the labor force are deteriorating. Given the current state of education in the country, the skill level of the workforce seems certain to deteriorate further.

A generation of Tajiks is largely being abandoned to manage as they can, with far less access to education and social services than their parents had. Nearly 80 percent of children of the poorest families lack any material assistance from the state. The educational system of the country is in complete disrepair; over 50 percent of all schools nationwide require capital investment, and not surprisingly the worst schools are found in rural areas.[38] Since 1990, enrollment ratios in primary and secondary schools have been declining; the gender balance in the schools is changing as well, as parents send sons to school in preference to daughters. This same pattern is said to exist in much of Turkmenistan and Uzbekistan and even in parts of Kazakhstan and Kyrgyzstan. But in Tajikistan, the number of places in secondary schools is dropping too, with fewer places available in 1999 than in 1990, although the high school age population has increased by 12 percent.[39]

Tajikistan is the most geographically isolated of the Central Asian countries. Before independence more than 80 percent of Tajikistan's freight left the republic through Uzbekistan. Allegedly, as part of an effort to keep Tajik goods from competing with goods from the Uzbek market, the government of Uzbekistan has made the movement of road freight across their territory quite difficult, forcing the Tajiks to ship through Kyrgyzstan, a more arduous route, and to sell their goods in the much smaller and well-sated Kyrgyz market. This has been especially bad news for Tajikistan's formerly prosperous Sogd (Leninabad, previously known as Khujand oblast), which used to be economically fully intertwined with Uzbekistan. Trade across Tajikistan is also a physical challenge. In general, Tajikistan's highway system is in the worst repair of any of these countries. Tajikistan is served internationally by CART Tajikistan, the state-owned airline company, which offers very limited service to neighboring countries, regular service to Russia, and limited service to Turkey (and sometimes on to Germany).

Much like Kyrgyzstan, Tajikistan has unrealized potential as an energy exporter, but by continuing Soviet-era practice, Tajikistan limits the production of hydroelectric power in favor of importing gas from Uzbekistan (paid for in part through barter arrangements), which is a constant source of debt for Tajikistan.[40] Like the Kyrgyz, the Tajiks are working closely with Russia's UES in the hopes that a consolidated Russian-dominated electric grid will give a weak state like Tajikistan more clout to transform water into hydroelectric power. But the end result is likely to be a Tajik hydroelectric system that is under Russian control, with less economic benefit to Tajikistan than expected.

Tajiks would like to encourage foreign investment in telecommunications. But the density of telecommunications in Tajikistan is the lowest in the Commonwealth of Independent States (CIS).[41] This isolation has made Tajikistan receptive to the spread of extremist ideologies as well as prey to the further criminalization of the economy. Tajikistan already has many of the features of a narcostate, and with the revitalization of opium and heroin production in Afghanistan this trend is certain to continue. Twice as much heroin has been seized along the Tajik border in 2003 than was seized a year previously, and there is no evidence that interdiction rates have improved.[42]

The evolving Tajik political system is unable to serve as a check on these developments, even with projected increases in spending on border security. In the face of the deteriorating social and political situations President Rahmonov has been accumulating more power in his hands, and he sponsored a 2003 referendum that exempts him from earlier term limits. As long as Rahmonov is in office, there is likely to be little serious effort to attack the political corruption that is at the core of the Tajik state, which is bad news for those who would like to use legal means to address Tajikistan's poverty.

Uzbekistan: Refusal of Reform

The government of Uzbekistan has had a rather schizophrenic attitude toward reform, initially courting the international financial institutions, then distancing itself from the World Bank and the International Monetary Fund, and then courting them again but without real enthusiasm. In 1996 Uzbekistan decided to stop meeting targets in the macroeconomic stabilization program that it had negotiated with the IMF. In the aftermath of September 11, 2001, when prospects for more U.S. and other international assistance were raised, the Uzbeks once again pursued engagement, only to back away again for nearly two more years. Finally, in October 2003 Uzbekistan agreed to accept the provisions of IMF article 8 and to move to a freely convertible currency.[43] However, years of nearly draconian restrictions on trade, combined with the government's policies of import substitutions, have led to the deformation of many aspects of Uzbekistan's economy, including the magnitude of the country's debt burden, which was 40 percent of the gross national income in 2001 (table 5-4).

At the center of the problem was the Uzbek government's decision to maintain Soviet-era state purchase and price support systems in agriculture; state control was facilitated by maintaining a multiple exchange rate system,

albeit with some modifications. This was in violation of article 8 of the IMF agreement, but Uzbekistan's president maintained that he better understood the nature of his country's economy than foreign specialists did and that his approach to Uzbek economic development was more likely to lead to success.

It may well be that neither side fully understood the needs of the Uzbek economy, and certainly both were talking past each other for many years in a series of negotiations frustrating to all concerned. From 1996 on, the government pursued "step-by-step" exchange-rate unification but always put off the final convergence of the multiple exchange rates, a problem that the government promised to rectify in a December 2001 letter of intent to the managing director of the IMF. The letter was designed to cover a six-month period, ending on June 30, 2002. In this letter, the Uzbek government agreed to a series of structural reforms, including exchange rate unification and a step-by-step elimination of the state procurement system for raw cotton and grain. In these two sectors Uzbek farmers (who are still largely organized in collective or communal farms) have production targets set and are offered seriously deflated purchase prices for their harvest.[44] In return the IMF and World Bank agreed to help the Uzbek government meet projected budget deficits if the latter kept to the agreed upon timetable for structural adjustments. The Uzbek government also made the commitment to liberalize the country's highly restrictive trade policy.[45]

The Uzbek government never qualified for the additional assistance, having failed to meet the agreed upon targets. By late 2002 the IMF and the World Bank both had reached new levels of frustration in dealing with the Uzbek government, in large part because of the introduction of a series of new tariffs and other trade restrictions, which led to the virtual collapse of the fledgling wholesale trade network in the country and further hampered trade with neighboring states (leaving millions of dollars in goods on trucks that were blocked en route to Uzbekistan). Much of this drama played out against the backdrop of strong international criticism at the 2003 European Bank for Reconstruction and Development (EBRD) annual meeting, which the Uzbeks had fought hard for the privilege of hosting.

The question of whether or not to sharply quicken the pace of structural reforms was a divisive one among the Uzbek ruling elite. Proreform economists within governing circles argued that Uzbekistan's state-dominated economy must inevitably make way for market forces and that to delay the transition would put the country at greater risk, given the continuing impoverishment of the Uzbek population. But even promarket reformers were

clearly frightened about what a unified exchange rate would mean for the standard of living of ordinary Uzbeks. In purchasing power parity terms, per capita gross domestic product was $2,460 (somewhere between that of Kyrgyzstan and Tajikistan, at $2,750 and $1,170, respectively).[46] A country strategy report from the European Bank for Reconstruction and Development argues that Uzbekistan has avoided the extreme levels of poverty prevalent in some of the other poor CIS countries, with a government-reported national poverty rate of 27.5 percent.[47] The expectation is that this rate will increase if economic reforms are pursued aggressively.

However, it is hard to know what the official poverty rate measures mean, as anecdotal information, including this author's own observations from considerable travel in Uzbekistan, argues for a sharp deterioration in the standard of living.[48] Many blame the increasing restrictions on the illegal "shuttle" trade between Central Asia and China, which brings cheap goods into the country. But in much of the country even the items from the unregulated trade are beyond the reach of many people's finances. This despite the fact that the government of Uzbekistan has placed a strong emphasis on maintaining the social welfare net, spending 7 percent of GDP in 2001 on health and education and 6 percent on social transfers.

Many argue that this money is not being spent effectively, that too much money is spent on salaries, and that many benefits are extended wastefully to rich and poor alike (including family subsidies, cheap gas and electricity, and subsidized rent). There is also substantial controversy about the use of local councils of elders (*mahalla* councils) to distribute relief aid to poorer families. Although they are generally seen as doing a good job in at least identifying families with genuine need, some Western experts argue that poverty assistance could be more equitably managed through a state-supported professional social service.[49] The schools are used to target assistance to children, and at the beginning of the school year specific grades nationwide are targeted for distribution of books, backpacks, and even boots and winter coats. School lunches are an important source of nutrition for Uzbek children, meager though they sometimes are. The high overhead in the schools, though, is another source of criticism for the Uzbek government.

It is hard to know, then, why Uzbek reform was further delayed between 2001 and 2003. Part of the explanation may be the rumored ill health of the country's president and what some see as his weakening hold on power. Corruption is as serious a problem in Uzbekistan as elsewhere in the region, although the repressive nature of the regime makes detailed information about it more difficult to come by. But there is no question that the existing

system of partial state purchase of cotton (and to a lesser extent of grain) at less than world market price benefits several people close to President Karimov as well as privileged members of the Soviet-era regional elite. Similarly, fortunes have been made on the disparity between the different values of the Uzbek som. Part of the answer for the delay in reform is the fear among the elite as to what freeing the Uzbek market, and privatizing key sectors of the Uzbek economy, would mean for social stability in the country. The principal arguments against exchange-rate unification are that prices would increase, as would unemployment. Most outside observers believe these fears to be exaggerated. Official unemployment in Uzbekistan in 2001 was 0.6 percent, and the EBRD estimated that the introduction of a unified exchange rate would lead to the loss of between 150,000 and 250,000 jobs and create an official unemployment rate of 3–4 percent of the workforce.[50]

There has also been concern that economic reform would inevitably lead to the introduction of private landownership, something that many in the country believe would create near-revolutionary levels of public dissatisfaction in Uzbekistan, where 63 percent of the population lives in rural areas, population density is high, and agriculture is dependent upon irrigation.[51] Added to this is the country's ecologically damaged environment, with salinization of soil and pollution of water supplies a commonplace problem in rural areas. These problems trace their origin to Soviet-era agricultural practices and especially to the overcultivation of cotton (with heavy dependence on irrigation and fertilizers), which date from this period—and which are generally viewed as responsible for the shrinking (and impending demise) of the Aral Sea.

Uzbekistan missed the opportunity to cut back on the cultivation of cotton in the first years of independence, and instead the "dependency" of Russia's textile industry on Uzbekistan's cotton was reaffirmed—but on market terms, which gave the Uzbeks hard-currency earnings. It would be politically inexpedient for the Uzbek government to drastically alter this relationship in the short term, making the introduction of private agriculture more difficult than would have been the case if agricultural diversification had been introduced a decade earlier. But even Uzbek economists are coming around to the idea that the staged privatization of agriculture is necessary.

The decision to move toward the convertibility of currency could be a boost to Uzbekistan's struggling private sector, especially if existing trade restrictions are removed. But much of the enthusiasm has been beaten out of Uzbekistan's entrepreneurial class, and many have abandoned the idea of doing business in Uzbekistan. The World Bank estimates that small- and

medium-sized enterprises account for only 15 percent of the country's GDP but provide 41 percent of the total employment. These figures are at sharp variance with official Uzbek statistics, which claim that these enterprises account for 35 percent of the country's GDP and that 78 percent of Uzbekistan's population is employed in the private sector. This latter figure, though, includes all those employed in collectivized agriculture. But however the number is calculated, the realities of doing business in Uzbekistan are to the disadvantage of the private sector. A March 2003 report by the EBRD maintains that 99 percent of smaller Uzbek firms are not engaged in any form of private trade.[52] This is an astonishing figure, given the former fluidity of the Soviet-era borders in Central Asia and the dominant role that Uzbeks used to play in the markets of neighboring countries. There are many reasons for this outcome, including most prominently the difficulties of securing access to hard currency, which has remained problematic even as the gap between rates has narrowed and despite the introduction of laws designed to provide freer access to foreign exchange.

There is also the question of the security of private property. Many of those engaged in the private sector lost their property in 1993–95, when some of the early privatizations were rejected as illegal. A November 2002 decree, signed well after the Uzbek government recommitted itself to meet the goals of macroeconomic reform, sent shudders through the Uzbek small business community. This decree seemed to open the door to the renationalization of any enterprise that changed its principal line of economic activity since privatization occurred. When one adds to this the high (and varying) levies on both the import and the export of goods, and the difficulty of maneuvering through the multitiered Uzbek bureaucracy to get the various licenses necessary for a business to function, it is surprising that anyone has the energy or patience to run a privately owned enterprise in the country.[53] Under the prevailing economic conditions it is hard to gauge how much of Uzbek entrepreneurialism remains and how successful the country will be in penetrating a Central Asian market that is now filled with competitors' goods. Some Uzbek capital fled the country in the early 1990s: Uzbek entrepreneurs do play a role in Kyrgyzstan, Kazakhstan, and Tajikistan, but these markets are dominated by members of the titular ethnic community, and those Uzbeks who have ended up in neighboring countries may find Uzbekistan's own market difficult to penetrate.

Reformers in the Uzbek government understand that there are no quick fixes for the economic stagnation created by a decade of vacillating on questions of economic reform. Establishing a single exchange rate for the Uzbek

som opens the door to the strengthening of the country's private sector and may stimulate the development of a local entrepreneurial class, whose existence might stimulate necessary political reforms. However, the relative impoverishment of the population over this same period, and the growth of radical Islamic forces in their midst, makes the process of reform riskier than it would have been if starter earlier—and the outcomes less obvious.

Could the International Community Have Been More Effective in Central Asia?

The international community could have been a more effective presence in Central Asia, but this would have required changing the basic assumptions of international assistance, which is designed to spur development rather than to pay the costs associated with economic transition. Simply put, the scale of international assistance was too small to induce Central Asia's leaders to do things that they did not want to do (see table 5-5). This money was largely designated for technical assistance, to jump-start the transition process rather than to fund it. A large percentage of the money went to pay the salaries and overhead of foreign advisers and for the purchase and shipment of equipment coming from foreign countries.

Central Asia's leaders quickly understood that international assistance was not an investment in their economies so much as an incentive for them to integrate into the global economy under terms that foreign advisers (with limited experience in Central Asia) defined as advantageous to the region. Although Central Asian leaders had little experience with the global economy, they had a deep understanding of what it took to remain on top of their own societies, and reformers—reluctant reformers and nonreformers alike—have managed to do just that. There has been a remarkable degree of political stability in Central Asia.

Much of the Western advice that was offered was couched in terms of national interest, but for all of these men, and those who surrounded them, national interest was a major consideration only if it coincided with personal interest. In Kazakhstan and Kyrgyzstan, the case for economic reform clearly did, as it provided President Akayev with a focus for economic activity that his poor country otherwise lacked. Moreover, it also provided jobs for the Kyrgyz, both in government and in the NGO sector. For much the same reason President Rahmonov of Tajikistan also became, in 1998, a proponent of economic reform, but he never leveled the playing field for international institutions, allowing reform to go forward in the shadow of the

drug economy and other criminal activities that occupied many key figures in the country.

The way that the international financial institutions distribute money in the region (the balance between overhead and money dispersed directly to the sectors or projects targeted) is a controversial topic in Kyrgyzstan and Tajikistan. In both countries, a great deal of ill will has been generated by the need to pay off debts (which include salary reimbursements for specialists, who are paid ten or even twenty times more than locals), and there is also anger in these countries that a class of privileged locals are being supported by Western grants.

The case of Kazakhstan is a bit different. Economic reform was understood as the only path to a desired outcome: foreign investment in Kazakhstan's oil and gas sector. Without that, President Nazarbayev feared that his country would not be able to sustain its independence but would in some form or another be swallowed up by Russia. But when investment was secured he quickly slowed the pace of reform, at least those reforms that might impede his ability and that of those closest to him to enjoy the fruits of these investments. Even so, Kazakhstan is as close as the region comes to a success story. It shows no signs of becoming a failing state. Partly this is because of its oil revenue, but that has also been a source of many of its political problems. The reasons for Kazakhstan's relative success are largely grounded in the complexity and diversity of the Kazakh economy.[54] But the kind of economic direction that Kazakhstan received has been a real plus.

At the same time, the international community could have been more assertive in both Kazakhstan and Kyrgyzstan, pressing for more legal transparency and better protection of private property. Legal reform programs in both of these countries (programs sponsored by the U.S. Agency for International Development) are drastically underfunded, given the costs involved in reforming judicial systems. Both countries have been far more receptive to U.S. engagement in judicial reform than in the also critical area of parliamentary reform. In both countries too, substantial increases in the amount of funding going to local government reform would make an enormous difference in helping to sustain economic reforms.[55] However, while such increases might have mitigated corrupt practices, especially at the lower levels, at best they would only have muted corruption at the top of these regimes. The amount of foreign direct investment in a state like Kazakhstan or Turkmenistan, investment that could reach as high as US$60 billion in the oil and gas sector alone, dwarfs the money available for economic or political reform programs.

President Niyazov of Turkmenistan is simply not as bright as President Nazarbayev and, unlike Nazarbayev, did not allow bright people close to him, either. He did not understand that gas wealth was harder to capitalize on than oil, given the dependence of gas providers on securing access to a specific market. He overestimated his ability to dictate the terms of the development of Turkmenistan's fossil fuel industry and was eventually forced to accept Russian-dictated terms for the sale of his gas. But given that the alternative routes for Turkmenistan lay through Iran and Afghanistan, both of which were effectively unavailable for geopolitical reasons, Niyazov stood to gain little from accepting international direction of his economy. Moreover, continued dependence upon Russia has not hampered (and may even have strengthened) Niyazov's primary goal, that of creating a form of rule more totalitarian than that of Stalin. At the same time, Turkmenistan is well on the road to becoming a policy-poor but resource-rich state, although the liberties that the Turkmen government takes in reporting its basic economic statistics make it hard for anyone to figure out just how close to this designation the country is in actuality.

With President Niyazov in charge, Turkmenistan will be difficult to influence. Overall, though, the United States could have been a far more aggressive and effective champion in the region. U.S. foreign assistance in general is only a tiny fraction of the U.S. budget, and assistance for Central Asia accounts for only a small fraction of that, reducing the kind of moral authority that the United States could have exercised in the region.

The situation of Uzbekistan is the most complex in the region and the one in which the West lost the greatest opportunity to influence outcomes by devoting more resources. While eager to use support from the West to distance Uzbekistan from Russia, President Karimov was also deeply suspicious of Western models of economic and political reform, which linked one to the other. Karimov's personal preference was to see Uzbekistan develop along the lines of China, with a state-managed economy existing side by side with a small private sector. But more than anything he feared social disorder, and given Uzbekistan's proximity to Afghanistan and Tajikistan, both of which were in turmoil in the early 1990s, this was no empty concern. Had the West come into Uzbekistan with a comprehensive reform package of five to ten times the size of what was offered, enough to bolster the Uzbek social welfare system through a three- to five-year transition period, then the Uzbek government might have been willing to pursue economic and even limited political reform. Such reform would have been made even more palatable if it had been accompanied by increased spending in the security sector as well.

Helping Uzbekistan to reform was not a Western priority in the early 1990s, nor was it a real priority as late as 2003. Although the International Monetary Fund and the World Bank are likely to assist Uzbekistan in making structural reforms, they are not bound by commitments made in 2002, as the Uzbek government did not meet the agreed upon deadlines. But new resources for Uzbekistan and all the other Central Asian states are likely to be difficult to come by, given the escalating reconstruction costs in Afghanistan (which are only a small fraction of the sums requested for rebuilding Iraq). In addition, the U.S. administration believes that the situation in Afghanistan is stabilizing, which makes Central Asia's needs seem less acute. U.S. bases in Kyrgyzstan and Uzbekistan are slated to move from "hot" to "warm" status, and U.S. assistance has declined in several categories. Even now the international community could do more with the money it spends in the region. Assistance programs emphasize national rather than regional goals. This national tilt becomes even more pronounced in organizations like the UN Development Program, which gives a priority to local ownership of projects, with the host governments encouraged to come with a shopping list of their own. Had more money been on offer, some of the decisionmaking weight of local ownership might have been muted.

Uzbekistan's lack of interest in improving the conditions of regional trade meant that projects with a regional emphasis were not a priority. A freer trade regime within Central Asia would have led to the largest gains in border regions of Uzbekistan, where Uzbekistan's decision to close its borders forced long-time linkages to be artificially broken. Yet by the time the international financial institutions began to make free trade a priority—when they began to focus more attention on the Central Asian states in the aftermath of September 11—it was too late to redress the current situation. This does not mean that current programs designed to regularize customs procedures and other technical problems associated with trade, as well as constant pressure to create a common tariff structure for the most frequently traded commodities, will not eventually yield results. However, a lot more could be done to create additional incentives for regional cooperation, including the creation of special loan funds that earmark money for cross-border businesses being set up by private entrepreneurs. Such a project would have the additional advantage of helping to reduce tensions in the border regions, especially if funding does not discriminate against ethnic minorities.

But the development of freer trade through the region (whether through regional initiatives or the less likely entrance of all the Central Asian states into the World Trade Organization) is not about to come any time soon.

Moreover, when it does come, it will be too late to serve as a stimulus for helping the weaker economies develop industries that take advantage of a regional market, both for selling their goods and for securing components necessary for production. The opportunity to do this in a fashion timely enough to help significantly alleviate poverty in Kyrgyzstan and Tajikistan is likely already lost. And the longer Uzbekistan keeps its borders closed, the more difficult it will be for private entrepreneurs to develop small- and medium-sized enterprises, and the more difficult it will be for these entrepreneurs to break into the Central Asian and southern Siberian market.

One of the tragedies of Central Asia is that things were not so terrible in the region at the time of independence. The trajectories of development were certainly negative in the mid-1990s, but three of the states (Kazakhstan, Kyrgyzstan, and Tajikistan) now show signs of recovery. And the two states that are not recovering adequately, Uzbekistan and Turkmenistan, are not in danger of imminent collapse. But international financial institutions and developmental agencies think in terms of the life of the project, about realistic targets; people living in the region think in terms of their lives and the lives of their children. Using the first yardstick, there is reason for some optimism in two of the three poorly performing states in Central Asia, and even in Uzbekistan forces favoring economic reform may soon come to power. But individuals are moved to action by the criteria of the second yardstick.

No one working in Central Asia has yet found a way to bring these two perspectives together. And until someone does, the short-term fallouts from long-term projects can create real long-term problems.

Notes

1. See www.eurasianet.org/resource/kyrgyzstan/hypermail/200212/0034.shtml.

2. Nancy Lubin, *Labour and Mobility in Central Asia* (Cambridge University Press, 1987).

3. Much of this was the product of the friendship between Leonid Brezhnev and the head of the Kazakh Communist Party, Dinmuhammad Kunaev. For a detailed account, see Martha Brill Olcott, *The Kazakhs* (Stanford University Press, 1995), pp. 228–29, 232–35, 250–54.

4. Transparency International Corruption Perceptions Index 2003 (www.transparency.org).

5. In September 2003, J. Bryan Williams, a former ExxonMobil executive, was sentenced to nearly four years in prison after pleading guilty to tax evasion in connection with a U.S. Justice Department investigation into alleged bribery in oil deals in Kazakhstan in the mid-1990s. James Giffen, a U.S. merchant banker and a special adviser to

President Nazarbayev, was indicted on bribery charges. Joshua Chaffin, "ChevronTexaco Quizzed as Kazakh Bribery Proof Widens," *Financial Times,* September 11, 2003, p. 1.

6. Bahamas exports were 20.7 percent of total exports in 2002. Economist Intelligence Unit, *Country Profile,* August 12, 2003.

7. Olcott, *The Kazakhs,* pp. 166–68.

8. See also Martha Olcott and Natalia Udalova, "Drug Trafficking on the Great Silk Road: The Security Environment in Central Asia," Working Paper 11 (Washington: Carnegie Endowment for International Peace, March 2000).

9. In Kazakhstan, the first parliamentary elections were held in 1999. The latest local elections to regional, district, and city councils were held on September 20, 2003. In Kyrgyzstan, President Akayev signed a special decree to fix the date of the local elections in the country. Radio Free Europe/Radio Liberty reports, 2001–03.

10. Karimov started work at the State Planning Bureau of Uzbekistan in 1966, where he was chief specialist and later deputy chairman. In 1983 he was appointed minister of finance of the UzSSR (//uzland.narod.ru/fact/karimov.htm).

11. Nursultan Nazarbayev was elected first secretary of the Kazakh Communist Party in 1989 and served as chairman of the Kazakh Supreme Soviet from 1989 to 1990 and as president of the Kazakh SSR from 1990 to 1991. In 1991 he became independent Kazakhstan's president. Nazarbayev had his term extended to 2000 by a nationwide referendum held April 30, 1995. His last reelection was held January 10, 1999, a year before it was previously scheduled. Askar Akayev was first elected president of the Kyrgyz SSR on October 28, 1990. On October 12, 1991, Akayev ran uncontested for president of independent Kyrgyzstan. Akayev was reelected as president in December 1995 and again on October 29, 2000. Emomali Rahmonov served as the head of state and Supreme Assembly chairman of Tajikistan from November 19, 1992, until November 6, 1994, when he was elected president. He was last reelected on November 6, 1999. Saparmurad Niyazov, then first secretary of the Communist Party of Turkmenistan, was elected president of the Turkmen Soviet Socialist Republic on October 27, 1990. Niyazov was elected president of independent Turkmenistan in June 21, 1992. In January 1994 Niyazov's rule was prolonged until 2002; on December 28, 1999, his rule was extended indefinitely. Islam Karimov, then first secretary of the Central Committee of the Uzbek SSR, was elected president of Uzbekistan in December 1991. President Karimov's original term was extended for an additional five years by a national referendum held on March 2, 1995. He was last reelected on January 9, 2000.

12. Kazakhstan, Kyrgyzstan, and Uzbekistan, the founding members, were later joined by Tajikistan. Turkmenistan refused to join because of the country's foreign policy of "positive neutrality." Until 1998 it was called the Central Asian Union. Then it was named Central-Asian Economic Community. Finally in February 2002 it was transformed to the Central Asian Cooperation Organization. See also Anders Aslund, Martha Brill Olcott, and Sherman Garnett, *Getting It Wrong* (Washington: Carnegie Endowment for International Peace, 1999).

13. Kyrgyz tariffs average 5 percent, Tajik, 8 percent, and Uzbekistan, 19 percent, with tariffs on some commodities important to regional trade set at 100 percent. Constantine Michalopoulas, "The Integration of Low-Income CIS Members in the World Trading System," paper prepared for the Commonwealth of Independent States (CIS-7) conference in January 2003, p. 24.

14. As quoted in ibid., p. 13. Michalopoulas uses 2000 trade data, p. 14. IMF breakdowns for 2001 do not provide necessary by-nation data for updating these calculations (see p. 23).

15. Kyrgyzstan was listed in the third quintile in the 2001 Country Policy and Institutional Assessment of International Development Association countries, with Uzbekistan and Tajikistan both being in the fifth quintile. "Linking IDA Support to Country Performance, Third Annual Report on IDA's Country Assessment and Allocation Process," April 2002 (//worldbank.org/ida).

16. In part because of this the European Union Commission decided to nearly double its assistance to Kyrgyzstan; the UN Development Program has switched from a project-based to a program-based approach; the Asian Development Bank has signed a three-year memorandum of understanding with the government of the Kyrgyz Republic; the World Bank is providing closer supervision through a new regional office in Almaty; the Islamic Development Bank has promised to begin a direct investment program; the European Bank for Reconstruction and Development has committed to larger scale projects in agriculture, energy, and telecommunications; and Switzerland, Germany, Japan, and the Scandinavian countries have committed to increased bilateral assistance.

17. "Comprehensive Development Framework of the Kyrgyz Republic to 2010, Expanding the Country's Capacities, National Poverty Reduction Strategy, 2003–2005," pp. 88, 94. Available on the World Bank website.

18. UN Development Program, *Human Development Report, 2003,* p. 248.

19. World Bank, *World Development Indicators, 2003,* p. 27.

20. Batken, Osh, and Jalal-abad and Talas oblasts (the south) are separated from the country's capital city of Bishkek, and the oblasts of northern Kyrgyzstan (Chui, Issyk Kul, and Naryn) are separated by a series of mountains (with three passes at over 3,000 meters in elevation) and are linked by a highway that was made year-round only after independence.

21. The registered unemployed in this region numbered 60,522 in 2001: 5 percent were sixteen or seventeen years old, 11 percent were eighteen to twenty-one, 22 percent were between twenty-two and twenty-eight, 34 percent were twenty-nine to thirty-nine, 23 percent were forty to forty-nine, 5 percent were fifty to fifty-four, and 6 percent were fifty-five and older. This area also suffered interethnic riots in 1990, since Uzbeks comprise over a third of the population of southern Kyrgyzstan; they live largely in ethnic enclaves in this border region. (My own observations bear this out: during extensive travels in the region I have seen hundreds of illegal Uzbek traders and itinerant Uzbek workers.) Although the formal statistics of the two countries do not bear this out, the standard of living in Kyrgyzstan is considered much higher than in Uzbekistan. For 2001 per capita income in both countries, see table 5-1.

22. IMF and IDA staff, "Kyrgyz Republic: Joint Staff Assessment of the Poverty Reduction Strategy Paper," January 24, 2003, p. 27.

23. The scenarios are predicated on a volume of investment of 20 percent of GDP, but investment dropped by 2 percent in 2001. "Comprehensive Development Framework of the Kyrgyz Republic to 2010, Expanding the Country's Capacities, National Poverty Reduction Strategy, 2003–2005," p. 152. Available on the World Bank website.

24. Many of the linkages within the country were necessitated by Uzbekistan closing access points that linked the principal cities in the southern oblasts of Kyrgyzstan and by

the fact that transit from north to south in Kyrgyzstan was generally accomplished on roads that passed through both Kazakhstan and Uzbekistan. Foreign assistance money included funds from the European Bank for Reconstruction and Development and the Asian Development Bank.

25. Michalopoulas, "The Integration of Low-Income CIS Members in the World Trading System," p. 44.

26. In 2002 Russian and Kyrgyz tariffs were reported to have been harmonized to only 14 percent, as compared with 60 percent between Russia and Tajikistan and 85 percent between Russia and Kazakhstan (and 95 percent between Russia and Belarus). See ibid., p. 28. According to Michaloupolas (p. 29), the Kyrgyz Republic has yet to decide to seek a World Trade Organization waiver to adopt the Eurasian community's higher external tariffs instead of the WTO-mandated lower ones. (Kyrgyzstan is also part of the Eurasian Economic Community, a loose customs union including Russia, Kazakhstan, Tajikistan, and Belarus. Kyrgyzstan was permitted to keep this prior membership as part of its accession terms.)

27. The Kumtor field is situated in the Issyk-Kul region, 4,000 meters above sea level and 60 kilometers from the Chinese border. On May 20, 1998, a truck transporting sodium cyanide crashed there. As a result, twenty tonnes of its load fell into the river Barskoon, causing the contamination of the river. The contamination spread to the Issyk Kul Lake, the main tourist attraction in Central Asia. The serious health impacts of the toxic spill were magnified by the extensive use of sodium hypochlorite solution to neutralize the toxic compound. For more details, see "Poisoned Gold, the Kumtor Goldmine in Kyrgyzstan" (www.zpok.hu/~jfeiler/kumtor/).

28. There is only one luxury-class hotel in the country, which averages only about 25 percent occupancy despite low business and international government rates.

29. Akaeyev's cousins Askar Sarygulov and Dastan Sarygulov initially headed the State Privatization Committee and the country's state-owned gold company, Kyrgyzaltyn, respectively. Akayev's son Aidar and his Kazakh son-in-law Adil Toygonbaev are considered to be the dominant figures in the economy, controlling the distribution of fuel oil, alcohol, tobacco, local real estate ownership, media, hotels, and casinos. David Stern, "Kyrgyz President Admits Relative Sells to U.S. Base," *Financial Times,* July 22, 2002.

30. The city of Bishkek enjoys oblast status, which has allowed the city residents to further profit from the local economic recovery.

31. Khalida Rakisheva, "Impact of the Internal Migration upon the Poverty Problem," paper prepared for the World Bank conference on poverty in Central Asia, Issyk Kul, June 2003.

32. IDA and IMF staff, "Republic of Tajikistan," p. 4; Government of Tajikistan, "Poverty Reduction Strategy Paper" (Dushanbe, June 2002), p. 12.

33. The size of the Kyrgyz migrant labor population in Russia is also increasing, therefore competing with the Tajiks for Russian jobs.

34. It is estimated that 60,000–100,000 people were killed in the war and that about a tenth of the population became internally displaced. International Crisis Group, "Tajikistan: An Uncertain Peace," Asia Report 30 (December 24, 2001).

35. In mid-2003 Tajikistan's external debt was estimated to be US$1billion. About 75 percent of Tajikistan's external debt stock is owed or guaranteed by the public sector. Russia is Tajikistan's single largest bilateral creditor. Other major bilateral creditors include

Kazakhstan, Belarus, and Uzbekistan. Economist Intelligence Unit, *Country Profile, Tajikistan,* September 1, 2003.

36. Tajikistan now consists of Gorno-Badakhsahn autonomous oblast, Sogd oblast (formally Leninabad), Khatlon oblast (formally Kurgan Tiube and Kulyab oblasts), the city of Dushanbe, and rayons of republican subordination (formerly Dushanbe oblast).

37. Government of Tajikistan, "Poverty Reduction Strategy Paper," p. 27.

38. Ibid., p. 22.

39. Ibid., p. 21.

40. Some US$40 million as of July 1, 2003, US$33 million of which is householder debt. Asia-Plus Information Agency, Dushanbe, in Russian 900 gmt (July 16, 2003).

41. There has been virtually no investment in television relay and broadcast facilities and limited use of satellite dishes, leaving Tajik viewers and listeners with little choice. The number of listeners is also declining, for as Soviet-era television sets and radios break, many people—especially those in the countryside—do not have the money to replace them with new foreign electronics. This situation is common in the poorer areas of the Central Asian republics but is a particular problem in as isolated a country as Tajikistan. The density of telecommunications is 9.3 telephone sets for every 100 urban residents and 0.6 sets for every 100 rural residents.

42. According to the Drug Control Agency under the Tajik president, in 2002 Tajikistan seized about seven tonnes of heroin and opium. Interfax Central Asia, March 3, 2003.

43. In October, Uzbekistan officially lifted all currency restrictions, including required currency purchases by firms and individuals and the use of multiple exchange rates. The national currency unit became convertible on October 15, 2003. All convertibility restrictions on payments and transfers for current international transactions, and deals were canceled starting October 8, 2003. Radio Free Europe/Radio Liberty reports on Central Asia, 2003.

44. The letter of intent promised that 30 percent of the cotton harvest would be purchased from farms at state procurement prices, another 20 percent would be purchased at negotiated prices, and the remaining 50 percent would be freely disposed of by the farmers at their discretion. (Grain production was to be disposed of in much the same way, but at 25, 25, and 50 percent.)

45. The commitment was to simplify the import tariff system in 2002 by limiting the number of items subject to trade restrictions and eliminating the system of ex ante registration of import contracts by the end of 2002. See the letter of intent signed by Rutam Azimov, deputy prime minister and minister of macroeconomics, and by Mamarizo Nurmuradov, minister of finance, and Faizulla Mulladjanov, chairman of the Central Bank of Uzbekistan, on January 31, 2001 (www.imf.org/external/np/loi/2002/uzb/01/index.htm).

46. By contrast, Kazakhstan and Turkmenistan were at US$6,500 and US$4,320, respectively. UN Development Program, *Human Development Report, 2003,* pp. 279–80.

47. EBRD, "Strategy for Uzbekistan," approved by the board of directors March 4, 2003, p. 16.

48. In 1998, 19 percent of the Uzbek population lived on less than US$1 a day and 44 percent lived on less than US$2 a day. World Bank, *World Development Indicators, 2003,* p. 60. Children, always the pride of an Uzbek household, now often walk around in tattered and dirty clothing, as baths as well as soap have become a luxury for many. The

quality of footwear has deteriorated strikingly as well, among all sectors of the population. In November 2001, I was brought, in a middle-class section of Tashkent, to a mosque at which women were receiving religious instruction, and not a single pair of shoes left at the door were in normal repair.

49. EBRD, "Strategy for Uzbekistan," p. 17.

50. Ibid. The EBRD also estimated that Uzbekistan would be able to maintain this growth rate, given the country's rich resource base. Ibid., p. 28.

51. Irrigated cropland is 88 percent of the total, one of the highest irrigation rates in the world.

52. International Finance Corporation/SECO.

53. EBRD, "Strategy for Uzbekistan," pp. 27–28.

54. For a detailed explanation, see Martha Brill Olcott, *Kazakhstan: Unfulfilled Promise* (Brookings, 2002).

55. The U.S. Agency for International Development and the UN Development Program both have projects in this area.