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**Central Asia and its countries: The political and economic development  
after the collapse of the Soviet Union**

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## **List of abbreviations**

**ADB** - Asian Development Bank Institute

**ASEAN** - The Association of Southeast Asian Nations

**ART** -The Agrarian Party of Turkmenistan

**CAR** - Central Asian region

**CAREC** - The Central Asia Regional Economic Cooperation

**CIA** -The Central Intelligence Agency

**CIS** - Commonwealth of Independent States

**CTSO** - The Collective Security Treaty Organization

**DPT** - The Democratic Party of Turkmenistan

**EEU** - The Eurasian Economic Union

**EU** - The European Union

**FDI** - Foreign direct investment

**FMS** - The Federal Migration Service of the Russian Federation

**GDP** - Gross domestic product

**GSP** - Gross social product

**Gosplan** - The State Planning Commission of USSR

**HTI** - Hizb-ut-Tahrir al-Islami Party

**ICNL** - The International Center for Not-for-Profit Law

**IFAD** - The International Fund for Agricultural Development

**IMU** - The Islamic Movement of Uzbekistan

**IMF** - The International Monetary Fund

**IS** - The Islamic State

**IRP** - The Islamic Renaissance Party of Tajikistan

**MVD** -The Ministry of Interior of Uzbekistan

**NBT** - The National Bank of Tajikistan

**NGOs** - Nongovernment organizations

**PIE** - The Party of Industrialists and Entrepreneurs of Turkmenistan

**SCO** - The Shanghai Cooperation Organization

**SSR** - The Soviet Socialist Republic

**SNB** - The National Security Service of Uzbekistan

**SPECA** - The United Nations Special Programme for the Economies of Central Asia

**TRACECA**- Transport Corridor Europe-Caucasus-Asia

**UN** - The United Nations

**UTO** - The United Tajik Opposition

**USSR** - The Union of Soviet Socialist Republics

**UNDP**- The United Nations Development Program

**US** - The United States

**UN Comtrade** - The United Nations Commodity Trade Statistics Database

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## **Introduction**

**The relevance of the topic of this thesis.** The Central Asian region (CAR) is a new geopolitical structure that emerged after the collapse of the Soviet Union. From being a peripheral region, as part of the Russian Empire and the Soviet Union for more than 120 years, the region has become the knot of intersection of competing multidirectional interests of external actors in the 21st century.

The transformation of the Soviet Central Asian republics into independent subjects of international relations has increased significantly the attention of the political and business circles, the military and diplomatic agencies of the world's leading countries, and the international scientific community. The CAR is under constant global monitoring in numerous monographs, research reports and articles, the media, and conferences.

On the one hand, the current geopolitical importance of the region is determined by its natural resources; it reserves control over these and it regulates the transit of energy resources (including Caspian hydrocarbons) and other strategic raw materials towards the world's largest economies. On the other, the escalation of instability in the Middle East and North Africa, as well as the attempts of international terrorism and religious extremism to penetrate into Central Asia has turned the region into one of the most important frontiers in the world community in countering the threats to international security. Overall, in recent years, the relocation of many international processes from Europe to Asia means that the CAR will become a geopolitical pivot in subsequent possible geostrategic scenarios.

Nonetheless, Central Asian developments are not limited to its geopolitical aspects; the countries of the region have carried out and are continuing to encounter a huge number of political and economic transformations. The choice of political and economic orientations will predetermine the future developmental trajectory of the Central Asian region and its countries.

**The purpose of this study** is to analyze the institutional and socio-economic evolution of the (CAR) and its states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) after the collapse of the Soviet Union and the gaining of independence within the framework of the influence of Soviet heritage and the movement of the world community toward globalization.

**Organization of the study.** The thesis consists of an introduction, two chapters, a conclusion, and a bibliography.

**Chapter 1** defines geographically the different possible boundaries of the CAR, which over the centuries were part of different empires, kingdoms, and states, and the population of which historically *de jure* and *de facto* never had their independent national statehood until 1991. The study also focuses on the consequences of the policy of the ethnic and territorial division adopted in the Soviet era in Central Asia on the current political instability in the region.

The chapter analyzes the features and results of the transformation of the Soviet political system into a Western democratic system in the states of Central Asia. In the early stages of independence, the ruling elites of the Central Asian republics declared that they would build democratic states, but in practice, in all of them there was an authoritarian throwback and movement toward the strengthening of the regime for personal presidential power. Why did Central Asian countries abandon communism for democracy, but then turn to authoritarian rule? This paper proposes a theoretical framework to explain the phenomenon of durability and sustainability of the super-presidential Central Asian regimes, and the key factors that have largely determined the failure of a democratic transition in all five post-Soviet republics. Special attention is given to the issues of political legitimacy of the current authoritarian regimes and the prospects of further democratic modernization.

**Chapter 2** is devoted to an analysis of the main features and results of the socio-economic transformation of the Soviet planned economy to a market-oriented economy in Central Asian states. The research area covers several periods: the period of deep recession against the background of the disintegration of the USSR (1991-1999); the post-transitional period defined in this paper from 2000 up to today given the fact that the world community has already recognized Kazakhstan (the largest economy in the region) and Kyrgyzstan as the countries with market economies.

The chapter investigates the structural change in the five Central Asian economies that have allowed them to be ranked in terms of socio-economic development levels and models. State capitalism and critical dependence on external factors have become today the main common features of all these economies.

The second chapter describes the restrictions imposed on the Central Asian commodity and labor exported economies and the protectionist policies adopted by the national governments. The restrictive trade policies are aimed at reducing the economies' vulnerability to external shocks, which are due to the high sectorial and geographical concentration of exports, significant migrants' remittances and consistent foreign direct investment inflows. The chapter discusses the issues of regional cooperation and integration and the perspectives of sustainable economic development in the states of Central Asia.

Finally, this study highlights the emerging challenges associated with the intersection of the competitive multidirectional interests of the major world powers, which consistently expand and strengthen their control over the natural resources of the CAR. Through different economic instruments, such as providing loans and investments, or the formation of alternative macro-regional integration projects in Eurasia, they seek to achieve their ambitious strategic objectives in Central Asia.

**The methodological foundations of the thesis** include systematic, institutional, historical, comparative, and other scientific approaches, as well as a wide range of modern methods of political, economic, and other interdisciplinary sciences (such as analysis and synthesis, analogy, hypothesis, classification, descriptive statistics, economic-mathematical methods and models).

**The theoretical and empirical foundations of the study.** Empirical information was provided by the constitutional laws and official documents regulating the activity of the supreme government bodies of the Central Asian states, and by the speeches of political leaders and diplomats of the Central Asian countries, Russia, the United States, European Union, China and others. The study has reviewed the analytical and statistical materials of scientific conferences, different research institutes and international organizations (UN, CIS, CSTO, SCO, EU, World Bank, Eurostat, IMF, IFAD and others). It has also analyzed publications in electronic and print media and scientific communication. Moreover, this study includes statistical data of the Soviet period not previously used in research papers.

**The originality of the study.** Previous studies in this field of research focus on limited periods of political and economic development of Central Asian states, or they

have not taken into consideration the impact of Soviet heritage on the outcomes of the transformational process unfolding in Central Asia after the collapse of the USSR. This thesis represents an attempt to fill this gap by providing a comprehensive analysis of the institutional and socio-economic evolution of Central Asian countries over the almost 25-year period of independent existence.

## **Chapter I. The history of the formation of the Central Asian region and features of the political transformation of its states after gaining independence**

### **1.1 The historical background of the Central Asian region**

The history of the Central Asian region located at the heart of Eurasia is very rich. Since ancient times, this huge arid landlocked area has served as the generator of population movements within the Eurasian continent.

In this extensive continental landmass of the planet, its one natural resource-grass, served as fodder for horses and ensured the existence of one of the most formidable forms of state of its time: the nomadic empires. Horses and nomadic people of the steppe that moved on them were the engine of the military machine that prevailed for thousands of years in this area. The constant interaction between sedentary civilizations with successive waves of steppe nomads on horseback became the leitmotif that passes through the history of Central Asia. Migration and recurrent shocks of military invasion, in combination with the mixing and replacement of peoples and cultures maintained this spacious region extending from the Caspian Sea to the high plateau of Mongolia in constant change and flux (Dani et al, 1992; Kuzishchin, 2003; Bradley, 2011).

Over the centuries, commercial communication and cultural exchange passed through this region with the help of the Great Silk Road defined by Boulnois (2005; cited in Bradley, 2011, p.29) as “an island of peace in a sea of wars”, which combined into one two Great Roads. One, coming from the West, from the Mediterranean to Central Asia, explored and traversed by the Greeks and the Macedonians in the military campaigns of Alexander the Great to the East in the 4th century BC. Another, coming from the East, from the Han Empire in Central Asia, explored by the Chinese in the 2nd century BC during the first diplomatic mission headed by Zhang Qian and later renewed for owning the “heavenly horses” from Fergana Valley.

These caravan routes named silken by a Venetian merchant traveler Marco Polo were the crossroads of civilizations between East and West. For some 1,500 years to the beginning of the 15th century until the European powers started gaining ground and alternative maritime trade routes replaced the traditional land pathway, the Great Silk Road was crucial as the route along which people, merchandise and ideas flowed between

China, India, Iran and Europe. Nevertheless, Central Asia was more than a territory of transit, and its history and culture are much more than the sum of the influences brought from the East and West<sup>1</sup>. For century after century, the region experienced the impact of foreign influence, colliding and merging with the indigenous features of Central Asia.

Throughout its history, the different parts of the region administratively and territorially were part of unstable empires, kingdoms, and states<sup>2</sup>. The population of this region, historically *de jure* and *de facto* never had their own independent national statehood until late 1991.

The documented history of Central Asia began in the 6th century BC when the Great Achaemenid Empire of Persia (now Iran) created in Central Asia different satellite kingdoms, the satrapies (provinces). Sanai (2002, p.15) argues that “most of the current territory of Central Asia was part of the Persian civilization even before the advent of Islam, and even before the advent of Christianity.” According to Dani et al (1992, p.6), “the influence of Iran - although the core of its civilization lies in South-West Asia - was particularly strong, to the extent that it is sometimes difficult to establish a clear boundary between the civilization of the Iranian motherland and that of the outlying lands of Central Asia.”

After the Arab conquest at the dawn of the 8th century, in the territory between the Caspian Sea and the Amu Darya, the population of the region was converted to Islam and entered into trade and cultural relations with the rest of the Muslim world. The impact of Islam was pervasive and fundamental. Nowadays, Islam is considered in Central Asia as the most important component of the cultural and civilizational traditions.

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<sup>1</sup> The region gave the world famous scientists, philosophers, and poets such as Al-Farabi, Al-Biruni, Al-Samarkandi, Avicenna, Firdawsi (the author of the Shahnameh), Omar Khayyam and the list continues.

<sup>2</sup> In ancient times this territory was under the rule of the Achaemenid Empire (Ancient Persia, now Iran), Empire of Alexander the Great, the Seleucid Empire (a Hellenistic state), the Greco-Bactrian Kingdom (a Hellenistic state), and the Kushan Empire. In the Middle Ages, different parts of the region were under control of the Hephthalite Empire (408–670), the Turkic Khaganate (552–744), the Samanid Empire (819-999), the Kara-Khanid Khanate (840–1212), the Seljuk Empire (1037–1194), the Khwarezmian Empire (1077-1231), the Mongol Empire of Genghis Khan (1206–1368), the Timurid Empire (1370–1507). In the feudal period, the territory was part of Uzbek Khanate that included three states: Bukhara Emirate (1785-1920), Khanate of Khiva (1511-1920) and Kokand Khanate (1709-1876). From 1860, most of modern Central Asia came under control of the Russian Empire (Russian Turkestan), and later, after the Russian Revolution of 1917, became part of the Soviet Union (Kuzishchin, 2003).

The historical and cultural ties with Turkey were and currently remain very strong. The ethnic group native of Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan descends from nomadic Turks. Tajikistan is the only non-Turkic state in Central Asia. The population of Tajikistan is mostly Persian - speaking.

The main migration of Turkic peoples occurred between the 5th and 10th centuries, when they spread across most of Central Asia. Since the 11th century, when the region was invaded by the Oghuz Turks and fell under control of the Seljuk Empire, the peoples in the region have considered themselves descendants of this Seljuk Oghuz tribe (Immigration and Naturalization Service, 1993).

Until the Mongol conquest in the 13th century (from which the sedentary populations of Central Asia would be recovered only 600 years later during the Russian colonization) Central Asia was one of the most economically and culturally developed regions of its time. In the late Middle Ages, the worldwide known blue-domed cities of Central Asia such as Bukhara, Samarkand, and Khiva established themselves as outstanding centers of intellectual learning and artistic creation.

In this “Turco-Persian” cultural world (Cummings, 2012) the Russian influence, in historical terms, was a recent phenomenon and will be discussed in detail in this paper.

In 1844, the geographer Alexander von Humboldt introduced the first definition of Central Asia as a distinct world region. With the term Central Asia, he outlined all internal parts of the Asian continent, extending from the Caspian Sea to the west and to the rather uncertain border to the east (Humboldt, 1844; cited in Laumulin, 2009).

The modern definitions of this region vary, due to the lack of clear physical geographical borders in the northern part of the region. As shown in figure 1.1, there are different views on the possible boundaries and definitions of the Central Asian region.

Figure 1.1. Map of Central Asia in conformity with different definitions of the Central Asia region



Source: [https://en.wikipedia.org/wiki/Soviet\\_Central\\_Asia](https://en.wikipedia.org/wiki/Soviet_Central_Asia)

According to the UNESCO definition (Dani et al, 1992), Central Asia occupies a vast space in the Eurasian heartland from the Caspian Sea in the west to central China in the east, and from southern Russia in the north to northern India in the south. This definition includes five former Central Asian Soviet republics as well as Mongolia, western China, northern Afghanistan, northern India, northern Pakistan, northeastern Iran, southern Siberia. As follows from this definition, the Asian part of Russia outside the taiga zone (the northern part of the region) is considered part of Central Asia. Laumulin (2009) asserts that this point of view deserves the right to exist because the modern regions of the Russian Federation such as Altai, southern Siberia, Yakutia, Buryatia, as well as the rudiments of the Golden Horde in the Volga and the Urals regions are referred to by oriental studies as fragments of historical Central Asia.

According to historical definitions of the region (Kurecic, 2010), this vast space representing Central Asia was called Turkestan. In the second half of the 19th century Turkestan was conditionally subdivided into Western (Russian), Eastern (China), Southern (northern part of Afghanistan and Iran). Modern Central Asia is a historical and geographical region that in terms of area is almost synonymous with Russia or Western



Turkestan (the obsolete name of the region during the rule of Russian Empire from 1867 to 1917).

The official Soviet definitions of Central Asia refer to the part of Central Asia formerly controlled by the USSR during the period of Soviet administration (1918-1991). Soviet Central Asia went through many territorial divisions before the current borders were created between the 1920s and 1930s (Luong, 2002). With the definitive borders, a “Central Asian economic region” included Turkmen, Kyrgyz, Tajik, and Uzbek Soviet Socialist Republics (Kazakh SSR was referred to as another economic region). In 1992, soon after achieving independence, the leaders of the four former Soviet Central Asian Republics met in Uzbekistan and declared that the definition of Central Asia should include Kazakhstan as well as the four original States. Since then, this has become the most common definition of Central Asia, which took a firm place in modern political and scientific use.

In this context, the map charted by Laura Canali gives the three different definitions of Central Asia (figure 1.2).

Figure 1.2. Three definitions of Central Asia charted by Laura Canali



Source: <http://temi.repubblica.it/limes/la-primavera-araba-non-arrivera-in-asia-centrale>. Il marchio giallo, Limes 3/2008.

According to the first definition, the Central Asian region located between 30° and 55° latitude north and 55° and 120° longitude east. As is evident, this definition does not include the eastern coast of the Caspian Sea rich in natural energy resources. The second definition of Central Asia includes in itself the area of former historical Turkestan (Western Turkestan, Eastern Turkestan and the Hindu Kush or South Turkestan). Lastly, the third definition of Central Asia refers to the territory of five post-Soviet states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

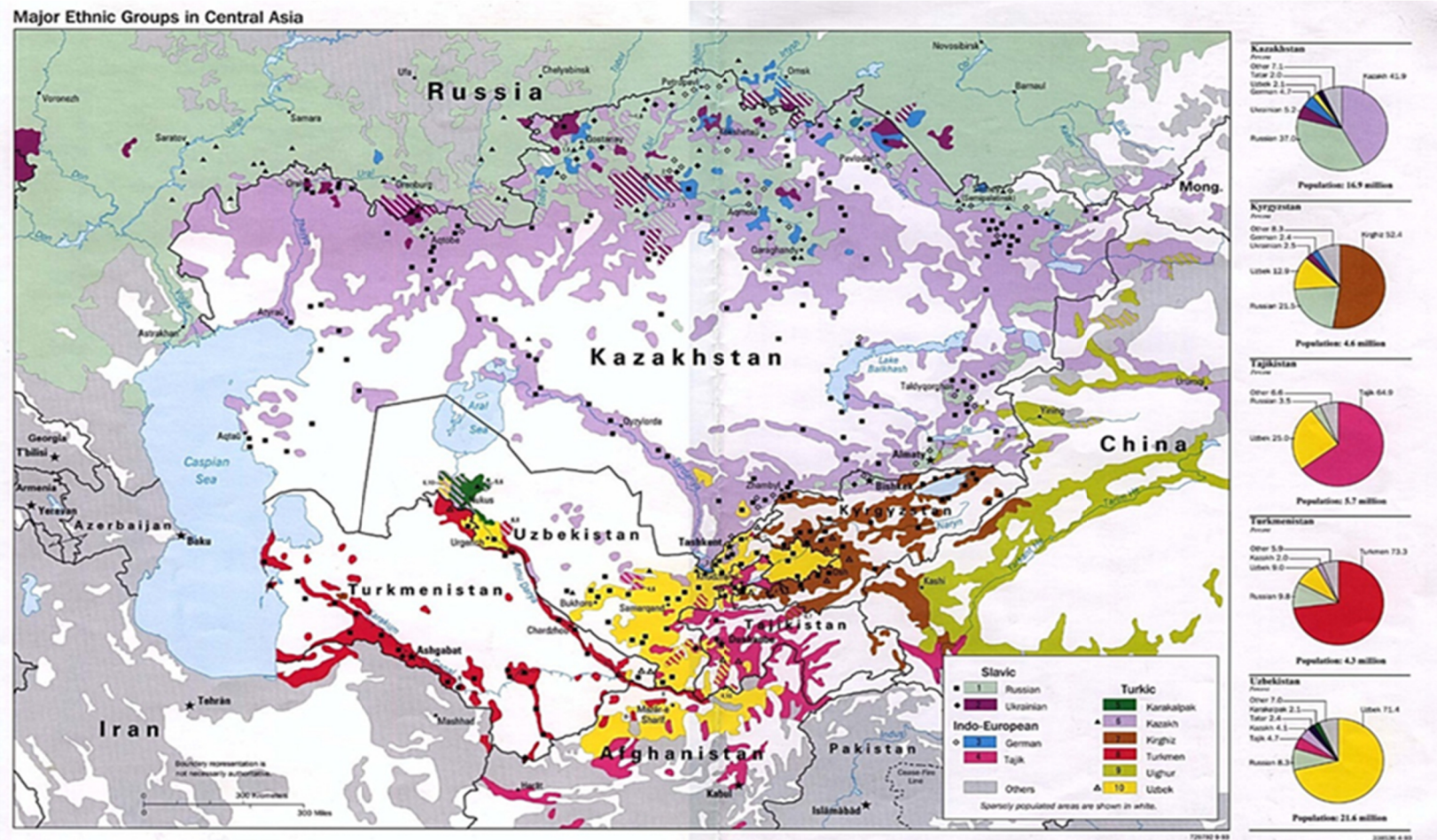
Another method for determining the boundaries of modern Central Asia takes into consideration the ethnic composition of the population (De Blij et al, 2004). According to this method, Central Asia is considered a region inhabited by Eastern Turkic peoples, the Mongols and Tibetans, and includes the former Soviet Central Asian republics, China's Xinjiang, northern Afghanistan, southern Siberia, Mongolia, and Tibet (figure 1.3). These ethnical and cultural criteria do not completely define the borders of Central Asia to the north, since a mixture of Slavic (Russian) populations with Kazakhs live in Kazakhstan. Russian minorities are also present in other Central Asian countries, because of the Russian dominance of these areas that ended only in recent history.

In political science works, reports on Central Asia analyze the energy aspects of the situation around the Caspian Sea (which can be classified also as a salt lake). Onshore and offshore oil and gas fields make Central Asia a prime object for many relevant geopolitical and geoeconomic studies, including Russia's territories bordering with Kazakhstan - the Astrakhan region in the west and the Altai Territory in the east (Bogaturov, 2010).

For the purpose of this research, in determining Central Asia we will refer to the modern political borders of the following five post-Soviet Central Asian republics: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan (figure 1.4).

Moreover, in this paper, with reference to the five Central Asian states, we will also use a well-established concept of political science: "the Central Asian region" (hereinafter – CAR).

Figure 1.3. Major ethnic groups and population density in Central Asia



Source: Perry Castenada Map Library at the University of Texas ([http://www.lib.utexas.edu/maps/middle\\_east\\_and\\_asia/casia\\_ethnic\\_93.jpg](http://www.lib.utexas.edu/maps/middle_east_and_asia/casia_ethnic_93.jpg)).

Figure 1.4. The modern political borders of the Central Asia states



Source: Kurecic, 2010, p.25.

The five countries that are referred to here as the CAR occupy a territory of approximately 4 million square kilometers with about 69 million inhabitants<sup>3</sup>. About 70 percent of the territory of the CAR is occupied by Kazakhstan that is also the second largest country in the Commonwealth of Independent States (CIS) and the ninth largest country in the world. Central Asia is one of the most sparsely populated regions in the world, despite the observable steady growth of the population in recent years. The population density of the region is only 16.6 people per sq.km. (by comparison, the population density in the European Union is about 116.4 people per sq.km.<sup>4</sup>) However, despite its generally low human density, the region is heavily overpopulated in its agrarian zones. The situation is particularly acute in the Fergana Valley, with more than 14 million inhabitants (20 percent of the Central Asian population) and levels of human density reaching 559 persons per sq.km around Andijan (Laruelle et al, 2013), (figure 1.3).

The Central Asian population is a mixture of more than 100 different ethnic groups. The largest ethnic group are Uzbeks. Uzbekistan is also the most densely populated region; 30.5 million people live there, or about 44 percent of the total population of

<sup>3</sup> <http://www.cisstat.com/eng/> (Interstate Statistical Committee of the CIS, 2014).

<sup>4</sup> <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00003&plugin=1> European Commission, Eurostat (the last date available is in 2013).

Central Asia. Within the region, the level of urbanization (number of people living in urban areas) varies from 26.7 to 53.3 percent of the total population by countries (table 1.1, table 1.2 and figure 1.5).

Table 1.1. Territory and some Central Asian region data

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	In total
Country Area in sq.km	2.724.900	199.951	143.100	488.100	447.400	4.003.451
Population density sq.km	5.94	27.4	59.2	10.5	75.8	16.6
Urbanization, % of total population	53.3	35.3	26.7	49.7	36.3	

Sources: World Bank, CIA (The World Factbook, 2014).

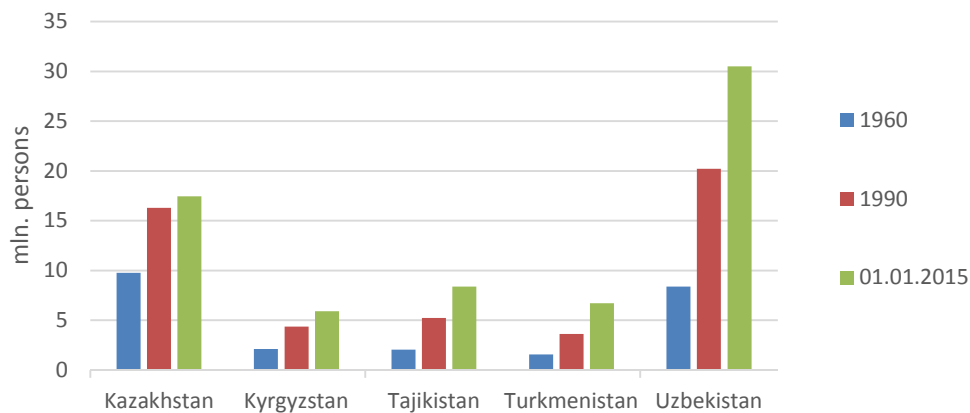
Table 1.2. The dynamics of the population of Central Asia from the years 1960 - 1990 to 01.01.2015<sup>5</sup>, mil. persons.

Year	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	In total
1960	9.8	2.1	2.1	1.6	8.4	23.9
1990	16.3	4.4	5.2	3.6	20.2	49.8
01.01.2015	17.4	5.9	8.4	6.7	30.5	68.9
1990/1960,%	167	205	256	232	241	208
2015/1990,%	107	135	160	185	151	<b>139</b>
2015/1960,%	179	277	410	429	363	<b>288</b>

Sources: <http://www.cisstat.com/public/cis-ec.pdf> The European Union and the Commonwealth of Independent States. Statistical comparison (Содружество Независимых Государств и Европейский союз. Статистические сравнения), (2008, p.23); <http://www.cisstat.com/eng/> Interstate Statistical Committee of the CIS (2015).

<sup>5</sup> Turkmenistan's population on 01.01.2015 is given *de facto* at the beginning of 2006 because between 2006 and the present time (2015) official publications of the country's population were not present. Obtaining updates is not possible because Turkmenistan has the status of a neutral state and is closed to international experts and observers.

Figure 1.5. The dynamics of the population of Central Asia from the years 1960 - 1990 to 01.01.2015



Sources: Graph based on data of Table 1.2

The data in Table 1.2 and Figure 1.5 demonstrate population growth in the states of the Central Asia region on 01.01.2015 by almost three times since the 1960s, and by 39 percent since the 1990s. At the same time, the data represent a 26.3 percent reduction of population in the period from 1990 to 2015 in comparison with the period from 1960 to 1990, which is primarily explained by the migration of the population for political and economic reasons in the first periods indicated.

After gaining independence in the 1990s, new political elites in heterogeneous Central Asian societies aimed to promote and impose the culture of the dominant ethnics upon the rest of the society (Peyrouse, 2008). Adopting a police force favorable towards the titular population and unfavorable to the Russian population and other smaller minorities led to a strong external migration of the last ethnic groups. The outflow of the Russian population from Central Asian states that had started in the 1990s was one of the most significant in all the post-Soviet space.

The number of Russians in Central Asia today is approximately about 4.7 to 5.3 mil. people, or about 7-8 percent of the total population, that is, less than twice the number before the collapse of the Soviet Union. Since the 1990s, apart from the migration of non-titular population for political reasons, another factor that influenced a reduction of population in Central Asian countries became the migration for economic reasons;

millions of unskilled workers were forced to look for permanent jobs in other countries, primarily, in Russia (Hoperskaya, 2013).

In regard to “the political - psychological background” of the region, Bogaturov (2010, p.110) asserts that “the population of Central Asia, before it became part of the Soviet Union and was subjected to ethnic and territorial division, was unaware of «nation states» in the European sense of the term. The prevailing form of organization was a territorial-political formation based on the supra-ethnicity principle. The Emirates of Bukhara, the Kingdoms of Khiva and Kokand were motley oasis empires, united by the common possession of land and water resources and the ideology of religious solidarity.” In opinion the author, the modern political boundaries of the CAR have developed contrary to the logic of traditional «oasis thinking» of local residents based on identification with the territory of residence rather than one’s ethnic group. As a result, the political, military-strategic, economic and ethnic contours of the CAR do not always coincide with the existing division of Central Asia to the conventional geographic regions. Combined with the natural features of the relief (deserts, mountains, trails) vague representation about the boundaries is a prerequisite for the uncontrollable movement of people, smuggling goods (drug trafficking and weapons) and diffusion of conflicts.

Bradley (2011, p.60) says that “before the Russian Revolution of 1917, the Central Asian peoples «ethnically» called themselves nomads or sart (sedentary), such as Turkish or Persian, or simply Muslim or according to membership to a particular tribe. Later, as ordered by Stalin, Soviet researchers «identified» different nationalities”.

In fact, in the process of the national territorial delimitation or administrative-territorial border changes the Soviet Central Asian space was divided into five national republics. This policy had the fundamental repercussions on the issue stateness<sup>6</sup> and aggravated problems of access to local systems of land and water use that were not taken into account by this policy. The Soviet policy of the national territorial delimitation was primarily aimed at avoiding the complexities of the interaction with the different ethnicities groups existing in the region, and at reducing the spread and influence of pan-Turkism in the region (de Blij et al, 2011).

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<sup>6</sup> In this context, “stateness” refers to the issues of the coincidence between the territory of a state and the national identity of those who live in the geographical territory (Dagiev, 2013).

According to Dagiev (2013, p.26-27) “Stalin’s greatest victory was to have brought the intellectuals of Central Asia to a position defending their language and their «nation» against their neighbors, and not against Moscow, whom they called upon to assist in the mediation of conflict.” Roy (2000, p.55) adds that the “invention of ethnicity represented the culmination of Russian policy toward organising the indigenous peoples into more «manageable» and controllable units.”

Thus, the policy of ethnic and territorial division carried out in the Soviet era led to the break of integrated territorial and supra-ethnicity of the Central Asian space; after gaining independence in 1991 this was exacerbated by the policy of ethno-national self-determination conducted by authoritarian leaders of the new Central Asian republics (see part 1.2 of this paper).

The Central Asian independent states are just beginning to develop inter-state cooperation, but the basis for internal unity that would make the CAR a definitively formed region has not yet been created. However, integration is a necessary precondition for the further political and economic development of this region (this concept will be examined in detail in Chapter II).

## **1.2 The features of institutional transformation of Central Asian countries in the post-Soviet period**

The collapse of the USSR and “catapulting to independence” (Olcott, 1992, p.108) put before the peoples of Central Asia and their elites the challenges of building a strong national state with a stable political system and a dynamic economy in the context of increasing globalization. Prolonged coexistence of Central Asian states within the framework of one state (Russian Empire before and Soviet Union after), the proximity of culture of their peoples, a similar structure of the economy and traditions of the elite formation, contributed as a consequence to the emergence of very similar starting conditions for the construction of the independent states.

However, the task of building stable political and economic systems has been resolved with varying success and with distinct features by the new independent republics.



The first years of independent development of the Central Asia states were at the same time a period of formation and evolution of transformation strategies of their economic and political systems designed and put forward by both external actors and local elites.

Theoretically, the states of the region had different models of political and economic transformation from which they could choose: a) Western - political pluralism, developed civil society, open economy; b) Turkish - quite a liberal model, but focused on the separation of the secular and Muslim state functions; c) Iranian - Muslim-theocratic and anti-Western; d) Chinese - tight political regime, focused on implementation of reforms under state control (Isakov, 2011).

Based on indicated above transformation models it can be concluded that the hypothetical possibility of filling the ideological void created in the post-Soviet Central Asia space with religion was not excluded. Nevertheless, the idea of unity of the professing Islam Turkic peoples of the CAR did not take root among the masses and Turkey, Iran and Saudi Arabia failed to gain a foothold in Central Asia. Therefore, the Islamic paradigm did not give here the basis for a political transformation (Abazov, 1995; Isakov, 2011).

As for the Russian-Soviet cultural and civilizational tradition, it began to back down its position in the first half of the 1990s, and its place was taken by political and cultural trends that have come from the West. In this regard, the main political goal that faced the post-Communist Central Asian republics after gaining independence followed by the collapse of the Soviet Union became the transformation of the Soviet political system into a Western democratic system based on universally accepted democratic principles.

The transitologic paradigm differently interprets the impact of international factors on the choice of democratic models of transformation by the states in the post-Soviet space. Some researchers (O'Donnell et al, 1986; Linz et al, 1996 and 2000; Whitehead, 1996; Torkunov, 2004) consider that the impact of international factors on the process of democratic transformation in the East should not be overestimated because the impulse to democratization came here from inside.

For example, O'Donnell et al (1986, p.6) assert that "the typical sign that the transition has begun comes when these authoritarian incumbents, for whatever reason,

begin to modify their own rules in the direction of providing more secure guarantees for the rights of individuals and groups.” As noted by Whitehead (1996, p.16) “domestic processes were viewed as primary, with international factors generally playing no more than a secondary role.”

According to Linz et al (1996, p.10), “the emergence and evolution of post-totalitarianism can be the result of three distinct but often interconnected processes: 1) deliberate policies of the rulers to soften or reform the totalitarian system (detotalitarianism by choice); 2) the internal «hollowing out» of the totalitarian regimes’ structures and an internal erosion of the cadres’ ideological belief in the system (detotalitarianism by decay); and 3) the creation of social, cultural, and even economic spaces that resist or escape totalitarian control (detotalitarianism by societal conquest).”

Torkunov (2004, p.107) says that “the most important factor of occurring processes of democratic transition in the countries has been the inability of traditional societies and their associated political regimes to manage the load of internal problems.”

Political changes are perceived by some of these political scientists as “borrowed” and caused by a “diffusion effect”, i.e. the penetration of political, economic, social, and cultural forms, models and procedures from the outside. The international environment is only a transmission mechanism from one domestic policy to another. In this connection, the choice of democratic model of development by the states of the post-Soviet space can be explained by the effect of a “*Zeitgeist*”, the expression adopted in the 18th century to indicate the dominant cultural trend in a certain period of history that refers to the “spirit of the times.”

For example, Linz et al (2000, p.118) assert that “when a country belongs to an international community in which the democratic ideology is simply one of the many competing ideologies, the chances of achieving democracy and seeing its consolidation are considerably lower compared to a situation in which the spirit of the times is such as to leave the democratic ideologies without significant competitors.”

Other authors (Huntington, 1991; Bunce, 1995; Nikitchenko, 1996; Schmitter, 1991; Vainshtein, 2001), conversely, emphasize the particular or even decisive role of external factors in the post-communist transformation.

According to Nikitchenko (1996; cited in Linetsky, 2008) the external factor determines the essential characteristics of the “third wave” of democratization, the generally accepted definition introduced by Huntington (1991). Nikitchenko proposed to consider a “third wave” of democratization as an “international regime” by which he means the social and political institutions that affect in a certain way the behavior of states and other political actors. In the opinion of the author, the interpretation of the processes of the “third wave” of democratization as an “international regime” is connected with the following factors for a number of reasons.

Firstly, the hegemonic role of the United States in promoting democracy in other countries is evident. Secondly, all aspects of international relations (trade, monetary and financial, environmental, human rights) exist in the framework of the economic liberalism that are not simply related to democratization, but also reciprocally strengthen it. Thirdly, the “international regime” is created on the basis of the other international regimes impacting on the transformation within the region of democratization.

Bunce (1995; cited in Snkel, 2014a) points to the difference in the degree of influence of the international factor in the transformation process in the South and the East. Democratization in Southern Europe and Latin America took place in a stable international environment in which international institutions, regional and world powers were willing to mitigate the difficulties of the transition. The post-Soviet transformation began in conditions of a high degree of international instability, which had a negative impact on the process of democratization in the countries of the former Soviet bloc.

According to Schmitter’s (1991; cited in Linetsky, 2008, p.199) classification of methods regarding the influence of external actors on the processes of democratization, in most post-Soviet states a mixed strategy of “taming” (the conscious use of compulsion by “establishing special conditions for the distribution of benefits from international institutions”) and “diffusion” (the impact of one state to another “by means of neutral channels excluding compulsion”) were implemented, at least until the “color revolutions” in Georgia, Ukraine and Kyrgyzstan.

Basing on the strategy of “taming” it can be suggested that the choice of leaders of the independent Central Asian states on the path towards liberal democracy was largely determined by considerable financial aid from international organizations and the

developed countries of the West<sup>7</sup>. Engagement in democratic reforms in these states was the main condition for issuing Western soft loans and grants. Some researchers (Huntington, 1991; Przeworski, 1992) link the beginning of the democratization process in the post-Soviet space with the cessation of foreign (Soviet) support of the ruling elites and regime after the collapse of the Soviet Union.

Vainshtein (2001) notes that the implementation of democratic transition in the post-Soviet space was carried out under conditions of strong external pressure from “standard” Western democracies. This, presumably, has manifested one of the common globalization process aspects that narrows the independence of states, not only in the economic sphere, but also in their political development, and in the opinion of Bogaturov (2006, p.273) “leads to «softening» of their sovereignty.”

There are two approaches characterizing the phenomenon of “global democratization.” The first approach interprets the “third wave” of democratization as a sort of alignment of the world political landscape to the standards of developed liberal democracies of Western classical type. According to the second approach, the process of democratization is interpreted not as a unification of the political map of the world in accordance with Western democratic standards, but rather as a diversification of democracy, as an extension of the diversity of democratic variants of development.

In fact, post-authoritarian and post-totalitarian transformations of the “third wave” of democratization lead to the appearance of a plurality of different forms of social organization that can be combined only with formal procedural attributes of democracy. Despite the fact that the content of the “third wave” of democratization consists “in the transition from an expansion phase to a consolidation phase, i.e., enhancing democratic institutions, as well as the strengthening of inter-state relations in the community of democratic nations”, the majority of new democracies have not been consolidated.

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<sup>7</sup> At the same time, according to some observers in the 1990s post-Soviet countries did not receive adequate economic assistance and political support from the West. Thus, Cohen (2001; cited in Linetskiy, 2008, p.200) writes that for the success of the processes of democratization in the post-Soviet space the US and other Western countries had to implement a new “Marshall Plan”.

O'Donnell et al (1986) and Diamond (2002) assert that the inability of states to complete whole cycles of democratic transformation has led to the appearance of “hybrid regimes” that combine features of autocracy and democracy.

Dimond (2002, p.23) says that “some of the countries (...) fall into the «political gray zone» (...) between full-fledged democracy and outright dictatorship.”

O'Donnell et al (1986, p.3) assert that transition from authoritarian regimes leads towards an uncertain “something else”. The authors introduce two terms to define the forms of governance for determining the outcome of democratic transition, such as “liberalized authoritarianism” (*dictablandas*) and “limited democracy” (*democraduras*) (ibid, p.9).

Bunce et al (2010, p.43) argue that “one of the most striking outcomes of the third wave of democratization has been the proliferation of competitive authoritarian regimes.”

Thus, the fundamental theoretical and methodological theories of political development, which interpret political transformation as a vector extending from the collapse of authoritarianism to democratic transition and then to the consolidation of democracy, requires serious rethinking.

McFaul (2002, p.213) offers “an alternative set of causal paths from «ancient régime» to new regime that can account for both outcomes - democracy and dictatorship.” The author asserts that “decommunization triggered a fourth wave of regime change - to democracy and dictatorship.” The facts show that these processes can often also complete the consolidation of the “new autocracies”.

In conclusion, it can be assumed that the process of political transformation, which unfolded in the post-Soviet Central Asian states, occurred under the strong impact of the following external factors: the Soviet Union's disintegration, strong pressure from Western democracies, and the world community's move toward globalization.

Despite the significant impact of external factors on the process of democratic transformation, internal factors remain the key variable that has largely determined the outcome of the transitions. The mechanisms of the diffusion of democracy do not explain why in the neighboring countries the impact of international actors has led to very

different results. Thus, in order to analyze the dynamics of the post-communist political transformation it is necessary to take into account the impact of two types of factors.

The features of the process of political transformation will be considered below in the context of the five following post-Soviet Central Asian states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

### **1.2.1. Kazakhstan**

After gaining independence, Kazakhstan went through different stages of political transformation and experimented with various models of political development, which are significantly distinguished from the classical scheme proposed in the framework of the Western transitologic paradigm.

Most political scientists subdivide the period of political and socioeconomic transformation in Kazakhstan into four stages: 1991–1995, 1995–2000, 2001–2006 and from 2007 till the present time (Zvyagelskaya, 2009; Shkel, 2009).

The first stage of the political transformation of Kazakhstan (1991-1995) was characterized by the controversial distribution of powers between the legislative and executive authorities (the Soviet (Supreme Council) and post-Soviet (President) institutions) that led to a long-term conflict between political elites, whose resolution in Kazakhstan was delayed until 1995. The strategies of political actors in this stage were aimed to maximize the authority within the framework of respective institutions.

According to McFaul (2002, p.226-228), the classical elite pact represents the reciprocal concessions between the ruling elite and counter elite, or between supporters and opponents of the authoritarian regime, in one of the phases to democratic transition. In Kazakhstan, in contrast, the elite pact represented a kind of “cartel agreement” between “the various segments of the elite divided by institutional boundaries of powers (the President and his entourage, on the one side, and the representatives of the Supreme Council, on the other), in order to maintain *status quo* in circumstances where none of the actors reached absolute advantages” (Igbaev, 2009). The result of this formal compromise was the adoption in 1993 of the first Constitution of independent Kazakhstan based on the model of a parliamentary republic.

The procedural factors (mechanisms and strategies applied by dominating actors to maintain their rule) on the whole contributed to the victory of the executive branch, represented by Nursultan Nazarbaev, who was First Secretary of the Communist Party of Kazakhstan in 1989, and in 1991 after the declaration of independence of Kazakhstan was elected President of the new Republic.

The soft constitutional coup of 1995 was expressed in the dissolution of a unicameral Parliament created in 1994, and the adoption of a new Constitution in the national referendum on August 30, 1995, which formalized the model of a presidential republic and established a new bicameral Parliament.

In this stage, the process of so-called “minor privatization” was launched. The state appropriated the main asset of socialism-socialist property, but at the same time, refused responsibility for the social sector. All this contributed to the appearance of negative tendencies in the political and social fields (Zvyagelskaya, 2009).

The second stage has been defined from 1995 until 2000 and the focus within that time span was aimed on establishing and consolidating modern democratic institutions and on forming the presidential form of government based on the new Constitution, granting to the incumbent president unprecedented powers with respect to all the remaining branches of government. The subsequent constitutional amendments strongly strengthened the monocratic character of the presidential authority, and in fact fixed presidential powers for life (Constitution of the Republic of Kazakhstan, Art.42 par.5 and Art.42 par. 4).

The second stage was also characterized by intensification of the tendency in terms of the process of the so-called “major privatization.” According to a number of expert estimates, the multinational corporations controlled up to 40 percent of Kazakhstan’s industrial production and about 50 percent of its foreign trade (Lubman, 2005).

Zviagelskaya (2009, p.45) asserts that in Kazakhstan, there emerged in this stage the “premises for the formation of polycentrism, a simultaneous existence of multiple independent power-cum-property ownership centers and geared towards asserting their independence and repudiating (...) the sovereignty of the overarching polity.”

Thus, due to the occurrence of insuperable contradictions between presidential authority and the interests of the newly emerged bourgeoisie, Nazarbaev staked on a limitation of democratization that led to an authoritarian throwback.

During the following five years, from 2001 to 2006, the country witnessed socio-economic progress, and consolidation of an authoritarian regime. The electoral cycles of 2004-2005 and 2007 confirmed the absolute domination of presidential power, over all branches of government (Shkel, 2009).

From 2007, Kazakhstan found itself at a new stage of political development attempting to build up a system of “guided democracy”, most often referred to as the “Nazarbaev model” that can be characterized by a combination of limited pluralism and possibilities for political participation with successful market reforms.

The presidential party, Nur Otan, which actually holds 81 percent of the seats in Parliament, is dominating in political system of the states. Nazarbaev adopted legislative measures limiting the possibilities of other parties to become political competitors to Nur Otan<sup>8</sup>.

According to the results of the latest parliamentary elections, held in January 2012 and coinciding with the unusual rebellion that broke out in the oil city of Zhanaozen<sup>9</sup>, out of seven political parties participating in the elections only three, Nur Otan, Ak Jol (the party close to business) and the Communist People’s Party of Kazakhstan managed to clear the 7 percent threshold<sup>10</sup>.

Today, in Kazakhstan’s political arena not only are independent political figures absent, but also factions at the central and regional level, so typically prevalent in the 2000s, which were capable of creating political competition to Nazarbaev and offering any real alternatives to the pursued presidential policy.

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<sup>8</sup> More specifically, this was expressed in the seven -percent barrier for entry into the Mazhilis (the lower house of Parliament), in the prohibition for parties to form electoral blocs, in effecting a transition to a purely proportional election system, and in calling early elections for the Mazhilis (see: The Constitutional Law of the Republic of Kazakhstan from October 16th, 1995 № 2529; Art.4 par.6).

<sup>9</sup> <http://www.eilmensile.it/2012/01/16/kazakistan-elezioni-via-a-multipartitismo-di-facciata> Kazakistan, elezioni: via a multipartitismo di facciata (Kazakistan, elections: towards a multi-party façade). PeaceReporter, January 16, 2012.

<sup>10</sup> <http://www.parlam.kz/en/mazhilis/faction> The official website of the Mazhilis of Parliament of the Republic of Kazakhstan.



At the same time, the modern political system of Kazakhstan is characterized by the existence of a sub-ethnic division of the Kazakh elite. Therefore, despite the great formal powers of the President, the regime retains elements of polycentrism, which, however, are often latent (Shkel, 2009). The containment of inter-elite contradictions is carried out by the regime not with violence and repression, but by methods of imitation democracy.

The clannish nature of the bureaucracy is another feature of the current political system of Kazakhstan. Clans provide a mechanism for internal support of the incumbent president in exchange for large privileges for them. Clan-based authoritarianism bolstered by oil wealth has helped Nazarbaev to consolidate a super-presidential regime in which his network controls power and resources (Collins, 2006).

According to Snkel (2009, p.104), the main result of political transformation in the post-Soviet Kazakhstan is “the formation of a mono-centric political regime with a prevalence of the dominant actor and informal institutions.” The author asserts that the essence of the political-regime transformation in Kazakhstan “can be described as the consolidation of a non-democratic regime with clan-bureaucratic characteristics and elements of imitation democracy”.

Currently, the main challenges for the ruling regime are searching for ways to legitimize power, to protect private property concentrated in the hands of members of the “Family” and its closest entourage from redistribution, and to resolve the question of power succession. Future liberalization and democratization of the Kazakhstan society depends on resolving these issues.

Nazarbaev, who on 26 April 2015 was re-elected for a fifth term as President of Kazakhstan in early presidential elections, is trying to resolve the power continuity problem. Reforms and changes in legislation of the last years demonstrate the redistribution of power in favor of parliament and the strengthening of the role of political parties in order to prevent possible inter-clan conflicts after the departure of the incumbent president. At the same time, any attempt to accelerate the process of political modernization will inevitably open up a prospect for redistribution of property. It is necessary to eliminate doubts that with a change in the nature of the political regime and

the country's transition from a presidential system to a presidential-parliamentary form of governance, a redistribution of property is possible (Malashenko, 2015).

### 1.2.2. Kyrgyzstan

The political development of Kyrgyzstan after achieving independence is unique in Central Asia: the country is constantly experimenting with the constitutional system and is challenging political immobility and authoritarianism in the region.

The birth of independent Kyrgyzstan looked like a triumph of liberal-democratic ideals. Meanwhile, democratic transition in Kyrgyzstan proved harder than expected. In the almost twenty five years of its independence, the republic has changed its Constitution nine times, altered form of governance four times, disbanded its parliament three times, banished its presidents twice (Akayev in 2005 and Bakiyev<sup>11</sup> in 2010), and lived through two “color” revolutions (the so-called “tulip” revolution of March 2005 and “contrevolution”<sup>12</sup> of March 2010) (Duysheeva, 2014).

Two revolutions and the following large-scale inter-ethnic clashes in the southern regions of the country in June of 2010 led from the “island of democracy” in Central Asia have made Kyrgyzstan one of the most unstable states of the region.

Kyrgyzstan, the first among the Central Asian states, created an important political prerequisite for a transfer to a parliamentary republic. In the referendum of 27 June 2010, the country adopted Constitutional amendments that limited the power of the president and widened the rights of the unicameral Parliament (Jogorku Kengesh).

According to Constitution of Kyrgyzstan (Art.70 par. 2), Parliament has 120 seats with members elected for a five-year term by party-list proportional voting. Five political parties represent acting Parliament. *De jure*, the parliament and the prime minister have

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<sup>11</sup> Bakiyev in the course of the revolution 7-15 April 2010 was overthrown by the opposition and fled the country, currently he is in political exile in Belarus.

<sup>12</sup> The last uprising could be referred as to as the “peacock revolution”, as the poor population of Kyrgyzstan was agitated by the ex-president Bakiyev's excessive personal wealth and the perceived level of corruption in the country. Frustration was directed, for example, at the fact that the ex-president owned a private zoo, including peacocks. <http://vsesmi.ru/news/4062884> (In the house of Kyrgyzstan's ex-President a zoo of the Red Book animals have been found), Editorial, 2010.

much more power and authority than the president does, but the *de facto* governance is parliamentary-presidential.

Changing the form of government from a presidential to a parliamentary republic after the revolution of 2010 did not contribute to the withdrawal of the republic from instability in political life but, on the contrary, led to the division of the region and the loss of state control in it.

The current political situation in Kyrgyzstan can be described as an acute political crisis. A high probability of revolutionary processes in Kyrgyzstan, together with the impact of external factors threatening independence and the territorial integrity of the republic, may entail the state's collapse and its political and economic merger by stronger neighbors.

Atambayev, the incumbent president of Kyrgyzstan experiences the “lame-duck syndrome” (a term introduced by Hale (2005)) because he has dramatically less power than at the beginning of his term, and elites believe that he may leave office.

The feature of the political system of the state is the weakness of its political parties caused by their constant transformation, reorganization or disintegration. The first political parties were set up by separating certain groups from the “Democratic Movement of Kyrgyzstan” established in 1990. By 1995, there were 12 registered political parties, and in 2008 already more than 100, in 2015 on the eve of the autumn parliamentary elections there were 203<sup>13</sup>.

Imanalieva (2014) argues that it is typical to all Kyrgyzstan's parties to have the features of an authoritarian leadership style, small membership, lack of interest in local elections and very often in parliamentary elections, lack of clearly expressed political interests and programs and a vividly expressed regional and tribal character.

The weakness of the party system in Kyrgyzstan means that nongovernment organizations (NGOs)<sup>14</sup> and independent media, rather than the political parties, are

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<sup>13</sup> [http://minjust.gov.kg/?page\\_id=6551](http://minjust.gov.kg/?page_id=6551) The Ministry of Justice of the Kyrgyz Republic. List of political parties. Last access: November 20, 2015.

<sup>14</sup> <http://www.icnl.org/research/monitor/kyrgyz.html> Kyrgyzstan has become a country with the highest NGO density in Central Asia. According to the International Center for Not-for-Profit Law (ICNL), over

acting as the mobilization and consolidation channels for the opposition forces and the advancement of democratic values. Nonetheless, the degree of liberty and the activity scale of the NGOs cannot be seen as a major indicator of liberalization in the socio-political life. “Although there was a certain degree of progress in political modernization, Kyrgyzstan has preserved quite an archaic political structure of society dominated by the regional groups and tribal clans, instead of political parties” (Mamutova, 2000; cited in Zvyagelskaya, 2009, p.97).

In Kyrgyzstan, the informal mechanisms of governance are manifest also in the activities of the patronage networks that cover different parts of society, regardless of their regional, ethnic and religious affiliation and thus, go beyond clans and administrative-territorial division<sup>15</sup>. The patronage networks are based on business interests and access to material resources by using personal contacts. In public administration, actors of such networks ensure the safety of each other in the implementation of illegitimate political and financial action (Temirkulov et al, 2013).

The corrupt patronage groups have built a model based on large-scale re-export of smuggling Chinese goods and drug trafficking from Afghanistan. The change of government in April 2010 provoked a new round of struggle for control of economic assets and pushed rival clans to the redistribution of property. Deregulation of the clan-political structure became the main factor for the renewal of old contradictions between the northern and more Islamic southern elites, and for destabilization in the country.

In these conditions, it has become evident that the government is unable to control the situation in the state and cannot offer a viable or united national idea. Today, according to a number of experts, a quite aggressive nationalism remains the dominant ideological “trend”.

The collapse of the ideology of official Soviet atheism in Kyrgyzstan, has led to the rapid growth of the politicization of Islam. One of the main conductors of Islam in Kyrgyzstan, the international organization Hizb ut-Tahrir al-Islami (HTI), is officially not

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10,000 NGOs registered in the country, and around 3,500 of them are operational (the last date available is in 2012).

<sup>15</sup> For example, the scheme of patronage network of Maxim Bakiyev the son of former president of Kyrgyzstan Bakiyev, included not only people from one clan, province or region, but even foreign citizens, having nothing to do with the Kyrgyz traditional division (Domashev, 2010, p.59).

prohibited. Islamist opposition that participated in both anti-presidential coups (in 2005 and 2010) has a distinct ethnic character, because it is prevalent mainly in the south of Kyrgyzstan among the ethnic Uzbeks (Laumulin, 2009). A particular threat is represented by the emerging tendency of cooperating Islamists with regional and clan groups, political parties, and the infiltration of Islamists in government bodies. It is not excluded that Kyrgyzstan could become the second Central Asian state after Tajikistan where an Islamist political party would be legally functioning.<sup>16</sup>

### **1.2.3. Turkmenistan**

Turkmenistan is known as one of the most repressive countries in the world, containing strong elements of personal leadership, despotic paternalism, totalitarianism, and constitutional subversion. In many respects, the Turkmen totalitarianism resembles the modern regime in Northern Korea (Medushevsky, 2008).

The development of the situation in Turkmenistan after independence on October 27, 1991 has always been one of the most closed subjects for any outside observer. The almost total isolation of the country from the world has become possible because of both the existence of significant reserves of natural resources in oil and natural gas, and the choice of a neutrality status<sup>17</sup>.

International isolation gave the country a certain stabilization, but at the same time contributed to retraditionalization of the regime, which began to acquire the expressed despotic features. The combination of totalitarian and paternalistic methods of governance meant absence even from a formal legal point of view of the separation of powers and the institution of constitutional control. In this regard, Turkmenistan presents “an extreme case of the personalization and deinstitutionalization of the regime” in the Central Asian region (International Crisis Group, 2003).

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<sup>16</sup> <http://www.ferghananews.com/articles/8029> Кыргызстан: «Исламизация» необратима?» (Kyrgyzstan: Is “Islamization” irreversible?) M. Kalishevsky. January 27, 2014. International news agency “Ferghana”, Moscow.

<sup>17</sup> On December 12, 1995, the General Assembly of the United Nations adopted resolution №50/80A “Permanent neutrality of Turkmenistan”. The UN, CIS, and several other international organizations officially recognized Turkmenistan’s neutrality.

After the declaration of independence, the first Secretary of the Turkmen Communist Party, Saparmurat Niyazov, remained in office as the first president of Turkmenistan. During the 15 years of Niyazov's rule, the presidential elections were held only in 1992, while the subsequent presidential elections were canceled by Parliament that in 1999 gave Niyazov the exclusive right to execute presidential powers for his lifetime. Niyazov possessed an absolute power over the nation; he was at the same time Prime Minister, Head of the Armed Forces and leader of the Democratic Party (the only legally recognized political formation). Presidential powers extended to all aspects of the country's economic and political life, even including the right to emit edicts that have the force of law. He called himself "Serdar Turkmenbashi" (the Father or Great Leader of all Turkmen).

A nationalist ideology and mythologized history legalized the ruling regime. The ideological dogmas, designed to become the ultimate truths for every citizen of the country were written down in his book "Rukhnama" that according to (Peyrouse, 2007, p.86), was "second book after the Holy Koran", in which Turkmenbashi presented himself as a descendant of Alexander the Great. Denison (2007) stresses that an active participant in the formation of national consciousness was also the Seljuk Sultan (Sanjar).

According to Peyrouse (2007; cited in Indeo, 2010, p.22), "Niyazov transformed Turkmenistan into a kind of absolute monarchy of medieval-style type founded on the exaltation of the image of his person and hermetically isolated from the rest of the world."

Turkmenistan under Niyazov absorbed many elements of the archaic despotic regimes peculiar to Oriental countries. This state was completely dominated by the Akhal Tekke clan, which constituted the main population of the metropolitan area. For them Niyazov was a tribal leader, who had power and influence in the country and provided income at a higher level than the rest of the Turkmen. With only Akhal Tekke clans placed in key positions, Niyazov refused to maintain a balance of clan representation in the government thus creating the threat of conflict between the main tribal Turkmen groups.

In Turkmenistan, all political activity opposition was banned and most non-governmental organizations (NGOs) were closed. Under Niyazov's rule, the policy of total control over an individual on the part of the state had been established. Internet

access was extremely limited and independent providers were not in the country. Censorship in the media was introduced. Only the President himself could establish newspapers. Opera, ballet and circus were banned by governmental decrees. (International Crisis Group, 2003 and 2004).

Nonetheless, even extreme centralization of power did not consolidate Niyazov's regime. Collins (2006, p.303) asserts that "his [Niyazov's] method of continually reshuffling or sacking his ministers, advisers, and even his security service and military testified to a near paranoia in his attempt to keep power."

On December 21, 2006, Niyazov suddenly died of a heart attack. After his death, Gurbanguly Berdimuhamedov assumed power and "won" the two presidential elections in 2007 and 2012.<sup>18</sup>

The death of President Niyazov has allowed the new leadership to take cautious steps to modernize the regime and to restrict the personality cult of the former president. Turkmenistan got a chance to reform and get out of international semi-isolation in which the country had been put by the old regime. In 2007, the course of the new president towards gradual liberalization and the transition from a monocratic to an oligarchic regime was evident (Laumulin, 2009).

Nevertheless, the transition to "Renaissance" (as the new course of president Berdimukhammedov was called) has not changed anything within the bearing structures of the Turkmen totalitarian construction. The character of the rule retains clannish nature and the internal logic of the current change is the transition of power from one clan to another (the so-called "clan Revolution"). Most reforms seem to be cosmetic, and/or in order to please the West, with whom Berdimuhamedov hopes to do business (Zviagelskaya, 2009; Medushevsky, 2014).

The Constitutional development of Turkmenistan (Constitution of 1992 was amended 5 times) represents the retreat from democratic standards of modern constitutionalism toward the strengthening of the personal power of the President of Turkmenistan. As in most post-Soviet Central Asian states, the important issues of the

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<sup>18</sup> <http://www.europeanforum.net/country/turkmenistan> European Forum for Democracy and Solidarity. Turkmenistan.

correlation between the prerogatives of Parliament and the President decided in favor of the latter (Medushevsky, 2008).

The last version of the Constitution of the Republic of Turkmenistan adopted on September 26, 2008, preserves the old power paradigm, changing small details. For example, it abandons the institution of Halk Maslahaty (Council of Elders consisting of 2507 members), the main role of which was to maintain the political system established by Niyazov. According to constitutional amendments, the President is elected for a five-year term. In fact, the President may be endowed with powers of life with full control of the Mejlis (Parliament, 125 members). There is no vice president or prime minister. The President is the Head of state and the Head of government (Constitution of Turkmenistan, art. 50); he leads the military forces (art. 53) and may issue presidential decrees that have the power of law in Turkmenistan (art. 54). Berdymukhamedov is accused of presiding over one of the most pervasive personality cults in the world and is widely known as “Arkadag”, or the Patron Saint<sup>19</sup>.

The Constitution of 2008 introduced also the legal possibility of forming multiple political parties. In 2013, Turkmenistan held its first multi-party parliamentary elections. In the national Parliament, representatives from the first opposition Party of Industrialists and Entrepreneurs (PIE) were elected. Before this time, in Mejlis only the Democratic Party of Turkmenistan (DPT) was legal. In 2014, the country established a third party - the Agrarian Party of Turkmenistan (APT). In fact, creating the political parties only imitates the democratic multi-party system in the country.

Turkmenistan is a country with one of the toughest totalitarian regimes in the world, which has violated all possible freedom and does not respect human rights. According to an estimate of Freedom House (2015), Turkmenistan is one of the world’s most repressive societies, “worst of the worst” for political rights and civil liberties<sup>20</sup>. The government

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<sup>19</sup> On May 15, 2015 in Ashgabat the grand opening was held of the first statue of Gurbanguly Berdimuhamedov the “Arkadag Binas” (monument of the Patron Saint or “White Khan”). This is a 21-meter bronze statue of the president riding a horse, established on its 15-meter marble pedestal and covered in 24-carat gold leaf. <http://www.independent.co.uk/news/world/asia/turkmenistan-unveils-huge-marble-and-gold-statue-of-its-autocratic-president-10274725.html> Turkmenistan unveils huge marble and gold statue of its autocratic president, former dentist Gurbanguly Berdymukhamedov. C. Milmo, Independent, May 15, 2015.

<sup>20</sup> <https://freedomhouse.org/report/freedom-world/freedom-world-2015#.Vk8oEHYvfIU> Freedom in the World 2015. Interactive Map.



completely denies freedom of association, expression, and religion, and the country is closed to independent scrutiny. Relatives of dozens of people imprisoned during the massive waves of arrests in the late 1990s and early 2000s have had no official information about their fate. The government continues to use imprisonment as a tool for political retaliation (Human Rights Watch, 2015, p. 559).

It is important to note that in February 2015 President Berdimuhamedov signed a law authorizing the holding of country meetings, demonstrations and other peaceful public events from July 1, 2015.

According to the experts, the reason for such a sensational innovation was connected with the main goal of Turkmenistan's foreign policy - to achieve independence from Russia in energy exports and withdraw its gas resources in the new European markets. For this, Turkmen elites are ready to demonstrate to Europe the process of political liberalization in the country by allowing meetings and demonstrations that in reality are rarely feasible (Dubnov, 2015).

Turkmenistan was the only country in the CAR where, after gaining independence, the authoritarian regime significantly weakened the position not only of Islamists, but also of official Islam. Niyazov's policy towards Islam was aimed at preventing the transformation of religious institutions into the opposition force of the regime. However, during the rule of Berdymukhamedov political Islam gradually recovered lost positions.

#### **1.2.4. Tajikistan**

Tajikistan was the only Central Asian state where the transformation of its political regime and the construction of a new statehood after the collapse of the Soviet Union took place under conditions of acute struggle for power between four major ethno-regional clans, which became a five-year Civil War (1992-97).

Due to the process of national territorial delimitation held by the Bolsheviks in 1924, the Tajiks got only a small part of the vast territory of historic Tajikistan. Ancient cultural centers of the Tajiks – Samarkand, Bukhara, Fergana Valley - with nearly two million Tajiks (who would become the nucleus of Tajik society integration) remained in Uzbekistan. This disintegration was the main cause of regional and clan division in

Tajikistan on the basis of four major ethnic and regional groups of the Tajik people: Leninabad (Khojent), Garmis, Kuliabis and Pamirs that determined the nature of the contemporary state-building process in the country (Boboxonov, 2012).

The conflict that began in 1992 as a political confrontation between the Popular Front - the supporters of a secular state and the United Tajik Opposition (UTO) - a coalition of Islamists and Democrats, developed into an ethnic war between representatives of various clans and, in fact, was a war between regions. According to McFaul (2002, p. 228), such a case is classified as one with equal balances of power “in which neither communist nor anticommunist forces won a clear majority” (table 1.3).

The consequences of this fratricidal war were between 40,000 and 100,000 people killed, and about a million refugees (Kuzmin, 1998; cited in Boboxonov, 2011). Great numbers of victims and refugees were not the only consequences of the war; it threatened the very existence of the secular state, which had proclaimed its independence in 1991. Islam in Tajikistan during this period turned into a real political force that claimed authority and established an Islamic state on the territory of the republic.

The Popular Front headed by Rakhmon (formerly known as Rahmonov) received the support from Russia and Uzbekistan, as a possible islamization of Tajikistan could have threatened the geopolitical balance in the region and could have led to the activation of Islamic militancy within these countries. Against the background of the strengthening of the Taliban in Afghanistan, on June 27, 1997 in Moscow an armistice was concluded between the government of Rakhmon and the UTO. Islamists and Democrats got their quota in the government and parliament (about 30 percent of places in governmental structures) and in the armed forces (4.5 thousand fighters of the opposition) in exchange for cessation of military confrontation with the new authorities (Malashenko, 2003).

This armistice was unique in the Central Asia scenario because of the incorporation of religious Islamic opposition into the political power of the secular state. This agreement was also a consequence of acute necessity to overcome the ideological and political division of society that coincided with the split of the regional elites (Boboxonov, 2012; Malashenko, 2003).

Currently, the Kuliab regional clan, which in the civil war came to power in the country, constitutes about 35 percent of the country's population. Its representatives are

in all spheres of power and occupy the predominant majority of the ministerial positions, including control of force structures. The interests of the clan are presented as ones of the state and of the nation. The society remains deeply divided without a unifying national idea.

In Tajikistan, the key issue in the post-Soviet constitutional debate was the problem of preservation a secular state. The adoption of the first post-Soviet Constitution of Tajikistan in 1994 was carried out in the midst of civil war. In fact, the Constitution expressed the interests only one military-political coalitions because in the referendum were not able to participate much of the population being in exile, so it may not have sufficient legitimacy.

The evolution of Tajik constitutionalism (the Constitution was amended twice, in 1999 and 2003) went in the direction of the strengthening of the authoritarianism and presidential power of Emomali Rahmon, who has been the President of Tajikistan since 1994. He was re-elected to office three times in 1999, 2006 and 2013, and in accordance with Constitution of Tajikistan (art. 65) Rakhmon may remain in office for a seven-year term until 2020.

In 1999, the unicameral Parliament (Majlisi Oli) was transformed into a two-chamber structure, consisting of the Upper chamber (Majlisi Milli) and the Lower chamber (Majlisi namoyandagon). According to the Constitution of the Republic of Tajikistan (art. 49), indirect election was established for the Upper chamber, thereby the President appoints the speaker of this chamber and 25 percent of its members are allowed to create a pro-Presidential majority in the Parliament, upsetting the balance between the branches of power. Moreover, Rahmon from 1994 represents and leads the People's Democratic Party of Tajikistan, which has a majority in the Parliament. At the last parliamentary elections that took place on March 1, 2015 Rahmon's ruling Party won 65 percent of the vote<sup>21</sup>.

Formally, the ban on activities of political parties in Tajikistan was lifted in 1999. Currently, in the Ministry of Justice of the Republic of Tajikistan eight political parties

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<sup>21</sup> <http://www.europeanforum.net/country/tajikistan> European Forum for Democracy and Solidarity. Tajikistan.

are officially registered<sup>22</sup>. In fact, legal opposition parties play by the rules established by the regime, and primarily, by the President.

The Islamic Renaissance Party of Tajikistan (IRP) is the only legal religious opposition in the post-Soviet space that has a stable structure and branched network of cells throughout the country. On the results of the parliamentary elections of 2000, 2005 and 2010 IRP received two seats of the 63 available parliamentary seats. At the elections held on March 1, 2015, the IRP failed to surpass the 5 percent vote barrier, and lost its two seats in Parliament.

Some political experts suggest that the defeat of the Islamic party contributed to the external situation. Common anti-Islamic moods in society and wide coverage in the media of the massacres committed by the group “Islamic State” have a negative impact on the opinion in Tajik society on Islamic parties.

At the same time, most experts are more inclined to assert that the political influence of the IRP is increasing. The attempts of the ruling regime to limit activities and to curb the influence of legal Islamic opposition by putting pressure on the party became the real reasons that led to its defeat in the last parliamentary elections<sup>23</sup>.

In this context, it should be noted that Tajikistan is the most impoverished nation in Central Asia. Local natural resources are being depleted, and the regime will soon be unable to provide its people with even a minimal level of sustenance. According to varying estimates, from 700,000 to 1.2 million Tajik migrants currently work in Russia (see table 2.10 of these paper). The social tension in the country where about 50 percent of the population lives in poverty is very high and popular demand for a strong opposition force to the regime is growing.

Moreover, the ruling Kulyab clan thanks to a tough authoritarian regime retains power in most parts of the country, but their presence in such regions as Garm and

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<sup>22</sup>[http://www.minjust.tj/index.php?option=com\\_content&view=article&id=81&Itemid=94&lang=en](http://www.minjust.tj/index.php?option=com_content&view=article&id=81&Itemid=94&lang=en) Ministry of Justice of the Republic of Tajikistan.

<sup>23</sup> [http://www.profi-forex.org/novosti-mira/novosti\\_sng/tajikistan/entry1008247900.html](http://www.profi-forex.org/novosti-mira/novosti_sng/tajikistan/entry1008247900.html) Деятельность партии Исламского возрождения Таджикистана парализована. (The activity of the Islamic Renaissance Party of Tajikistan is paralyzed). R. Ghani. March 8, 2015.

Badakhshan is minimal and limited to regional centers. Government forces do not control some mountain areas (mountains cover 93 percent of Tajikistan).

Collins (2006, p. 295) asserts that although the regime is authoritarian, it is not consolidated. “On the surface, Rahmon and his clan have established hegemonic control. Yet at a deeper level, the Tajik regime has exhibited little success in implementing its policies - such as the campaign against corruption, centralization of the economy, disarmament, and rebuilding state control outside of the capital.” In this situation, the repressive measures and persecuting by government the legal opposition may strengthen the radical forces. The Islamists may attempt to monopolize public protest and cause a military conflict, as already happened in the recent past (Malashenko et al, 2014).

### **1.2.5 Uzbekistan**

The formation of a modern political system of Uzbekistan took place in common with the former Soviet republic conditions. However, the highest population density and the largest armed forces in the region, the possession of resource potential<sup>24</sup>, and the location in the country of the oldest cultural and intellectual centers of Central Asia such as Bukhara and Samarkand, allowed Uzbekistan to claim regional leadership and consider itself one of the key countries in Central Asia.

A characteristic feature of the political development of the Republic of Uzbekistan after gaining independence was the refusal to implement constitutional reforms or imitate a strategy for the conservation of a traditionalist authoritarian regime. Furthermore, the consistent reproduction of power succession legitimated the term in office of the leader, the duration of whose rule amounted to a quarter of a century in 2015 (Medushevsky, 2012).

Islam Karimov, former First Secretary of the Communist Party of the Uzbek Soviet Socialist Republic, whose political longevity has been achieved largely thanks to the control over the numerous (more than 1 million people) security forces, has headed the Republic since 1989. In March 29, 2015, Karimov was re-elected President of Uzbekistan

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<sup>24</sup> The country is one of the world’s biggest producers of cotton and is rich in natural resources, including oil, gas and gold.

for five years for the fourth time. His appointment once again postpones the elaboration of an institutional mechanism for leadership succession. From the first days of independence, Karimov acted as Head of state and Chief executive at the same time. The President's authority dealt also with issues within the competence of legislative and judicial branches (Zvyagelskaya, 2009).

The second decade of independence saw some initiatives, aimed at limiting presidential powers. The political and legal act of huge importance was the executive branch reform of 2001, which aimed to redistribute part of the President's authority to the Cabinet of Ministers, which since then is formed by the legislative branch.

This reform contributed also to the enhancement of the role, authority and oversight functions of the Parliament. In this connection, in 2002 after a national referendum a bicameral Parliament (the Oliy Majlis) consisting of the Senate (upper Chamber) and Legislative Chamber (lower chamber) was introduced (before 2002 Uzbekistan had a unicameral Parliament of 250 seats) and some of the President's authority was transferred to the Senate (Constitution of the Republic of Uzbekistan, art. 78, 80).

In 2008, the Government has continued with parliamentary reforms by adopting constitutional amendments aimed at strengthening the role of political parties. In accordance with these amendments (Law on elections in the Oliy Majlis of the Republic of Uzbekistan. Tashkent, December 25, 2008 № ZRU-194) only political parties may nominate candidates of the Legislative Chamber.

Constitutional amendments of 2011 (art. 98) introduced a new procedure for the nomination of the Prime Minister of the Republic of Uzbekistan by a political party that has the most seats in the lower Chamber of Parliament or by several political parties, securing the equal highest number of seats.

In 2014, Karimov proposed ulterior constitutional changes that would transfer some presidential powers to the legislative and executive branches (Malashenko, 2014). These reforms would later lead to fundamental changes in the existent political system and to a transformation in the hierarchy of governance structures. Currently, the multi-party system emerged in Uzbekistan remains largely formal, as in other republics in the region. The position of political parties in their relations with the executive branch is pro-government or even pro-presidential. In practice, the Uzbek Parliament only meets a few

times a year, which makes a real political debate and a critical attitude towards the Government impossible. The President makes all decisions.

During the last parliamentary elections held in Uzbekistan on December 21, 2014, with a second round on 4 January 2015 the party's politicians were hard to distinguish between themselves and did not address the most interesting topics for the voters<sup>25</sup>.

Practically, Karimov has manipulated electoral and party legislation in order to strengthen political parties and thereby decrease clan and regional group representations in government. The aspiration to neutralize the clans in politics was also due to a large extent to the threat of the spread of their influence on the army. Currently, compared to the first two decades of independence, ethnic composition of the political elite in Uzbekistan is less homogeneous and its clannish nature has been retained only in part.

Zviagelskaya (2009, p.210) asserts that “the political weight of functional political groups in Uzbekistan is not equal and their influence varies from sphere to sphere and is never absolute, because the supra-clannish nature of presidential power allows to manage personnel while restricting the militancy of the opposition and the presidential advocates.”

Islam Karimov also completely cleaned the political space from secular opposition. According to Kurtov (2007), the defeat of secular opposition in the early 1990s in Uzbekistan caused lack of support by the Russian population due to nationalist appeals contained in their programs and activities.

A sharp increase of the religious factor did not contribute to the success of secular opposition either. Gaining independence coincided with the rise to power of the religious “Taliban” movement in Afghanistan, which supported the Muslim movements throughout the region.

A stable Islamist opposition that includes a multitude of factions appeared in Uzbekistan in the early 1990s. The main goal of Islamists is the creation of a supranational caliphate in Central Asia with a nucleus in the Fergana Valley. The leading places for such organizations were occupied by the Islamic Movement of Uzbekistan (IMU) and Hizb ut-Tahrir al-Islami (HTI). Their ranks were joined not only by international

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<sup>25</sup> <http://www.europeanforum.net/country/uzbekistan> European Forum for Democracy and Solidarity. Uzbekistan.

terrorists, but also by militants from secular opposition parties, the Birilik and Erk, which had been banned in Uzbekistan.

The culmination of social tensions and the growing influence of Islamic underground was the massacre in one of the Fergana Valley towns - Andijan - in May 2005. The security forces opened fire on protesters demonstrating against the imprisonment of people charged with Islamic extremism. According to various estimates about 200 -1,500 people died in clashes between demonstrators and the police (Laumulin, 2009). Assessments of these events by Uzbek authorities, governments of various countries and human rights organizations differed significantly and interpreted them as the legitimate quelling of a prison break, the inter-clan struggle for state power, the attempt to a color revolution, the anti-government protest organized by Islamist underground with Western support<sup>26</sup>.

The tensions in the Fergana Valley, connected to the Andijan massacre, and its suppression have led to a tightening regime and allowed authorities to justify civil rights breaches and repressions. Karimov's government has been accused of human rights violations, torture and killing of civilians, including thousands of innocent Muslims. According to Human Rights Watch (2015, p.599), President Islam Karimov "continued to employ a widespread security apparatus to monitor and crack down on activities of real and perceived opponents".

The consequences of the revolution in neighboring Kyrgyzstan in 2010, accompanied by the Kyrgyz-Uzbek ethnic clashes, which caused a significant flow of refugees to Uzbekistan, were the closure of the borders of Uzbekistan and the introduction of the police regime of presidential dictatorship. In the opinion of experts, the possibility of "the Uzbek spring" without external interference is unlikely<sup>27</sup>.

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<sup>26</sup> <http://www.fergananews.com/articles/8535> Годовщина кровавых событий в Андижане. Комментарии экспертов, политиков, журналистов (The anniversary of the bloody events in Andijan. Comments of experts, politicians, journalists). May 12, 2015. "Fergana" News agency, Moscow.

<sup>27</sup> <http://www.limesonline.com/la-primavera-araba-non-arrivera-in-asia-centrale/36896> La primavera araba non arriverà in Asia Centrale (The Arab Spring will not arrive in Central Asia). F. Indeo. 11.07.2012.



### **1.3. The failure of democratic transition and the factors of sustainability of the authoritarian regimes in the Central Asian countries**

Currently, it can be stated that the transition period, or according to O'Donnell et al (1986, p.8) “the interval between one political regime and another” by which many researchers imply, above all, a definitive breakaway from the Soviet regime, has finished. However, it does not follow that transformation as a transition to democracy and a market economy is nearing its completion too.

The Western model of democracy imposed on the local political and social features of Central Asian states have changed their political image and laid the foundations for their development along the path of imitation democracy that is characterized by a combination of elements of formal procedural democracy and authoritarianism<sup>28</sup>.

After almost 25 years of gaining independence, none of the post-communist Central Asian states has produced democracy. Carothers (2002, p.9) asserts, “the initial political openings have clearly failed and authoritarian regimes have resolidified”. There was a brief period of democratization only in Kyrgyzstan in the early stages of its independence.

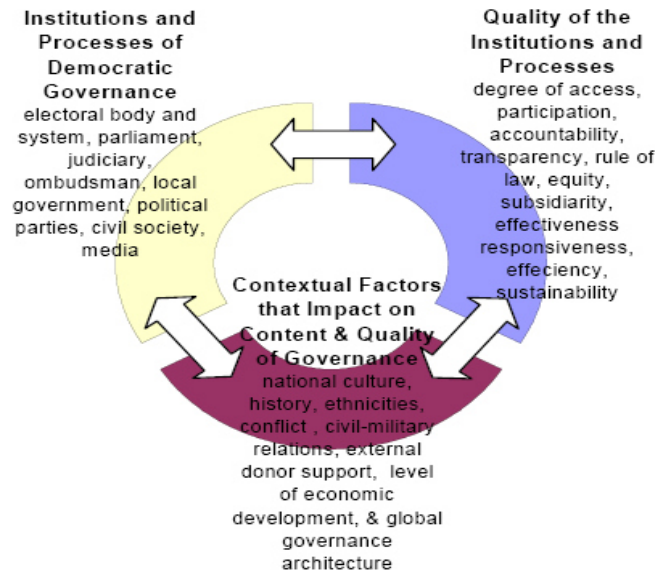
Why did Central Asian states abandon communism for democracy, but then turn to authoritarian rule? This paper proposes to explain the causes of the failure of democratic transition in the Central Asian states.

To examine the reasons for the failure of regime transition from totalitarianism to democracy in the Central Asian states we will use the conceptual framework for determining the democratic governance proposed by Cheema (2005, p.11). This model is based on three interconnected factors: what makes up democratic governance (institutions, processes and practices), how governance is democratic (key principles of democracy as a form of governance), and why governance becomes democratic (internal and external factors - previously discussed in this paper - that influence the development and consolidation of democracy) (figure 1.6).

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<sup>28</sup> Different authors have chosen specific labels to describe such “democracies with adjectives” (Collier and Levitsky 1997, cited by Schedler, 2006) with the help of which they are meant to refer to specific structural deficits and weaknesses. For example, “delegative” democracies lack checks and balances (O'Donnell 1994), “illiberal” democracies fail to uphold the rule of law (Zakaria, 2003 and 2004), and “clientelist” democracies are weak on programmatic party politics (Kitschelt 2000, cited by Schedler, 2006).

Figure 1.6. The What, the How and the Why of Democratic Governance



Source: Cheema, 2005 p.10-11.

Figure 1.6 reflects the dynamics of interconnection between three factors that determine the nature and specifics of democratic governance and can help to explain the success or failure of the transition of the authoritarian states toward democracy.

Obviously, these invisible structures do not make democracies or dictatorships. McFaul (2002, p. 214) asserts that “structural factors such as economic development, cultural influences, and historical institutional arrangements influence the formation of actors’ preferences and power, but ultimately these forces have causal significance only if translated into human action. Individuals and the decisions they make are especially important for explaining how divergent outcomes result from similar structural contexts”.

In the process of transformation of the Soviet political system into a democratic model of governance proposed by the West already in the middle of the 1990s, it seems that the Central Asian states responded to the first requirement of the conceptual framework by creating democratic governance. All Central Asian states established free elections, political parties, and parliaments. The principles of democracy, including respect for human rights, institution of presidency, legislative elections, multiparty

systems, and the supremacy of international law, were written into the new national constitutions (with the exception in part of Niyazov's autocratic regime characterized by totalitarianism and constitutional subversion).

Nonetheless, the Central Asian states failed to execute the second requirement of the conceptual framework: to accept democracy as a dominant form of governance. In the first process, therefore, the Central Asian countries dealt with the issues of "regime change", or transition, in the second process with the "functioning of the regime", or consolidation.

McFaul (2002, p. 227) hypothesizes that "if the election produced a clear communist victory for the old ruling communist party or its direct successor - with victory defined as winning more than 60 percent of the vote - then the case is classified as a balance of power in favor of the «ancien régime»." According to author, the distribution of power in Central Asian states except for Tajikistan (a case with equal balances of power in which neither communist nor anticommunist forces won a clear majority) was favored to the "anciens régimes" (table 1.3).

Table 1.3 Political trajectories in post-Soviet Central Asian states (cases)

**Short Term, 1991-94**

Case	Typology of Post-communist regime proposed by McFaul	Formal Regime Type	Regime Durability
Kazakhstan	balance of power for Ancien Régime	authoritarianism	durable
Kyrgyzstan	balance of power for Ancien Régime	electoral democracy	durable
Tajikistan	balance of power even or uncertain	collapsed regime	non-durable
Turkmenistan	balance of power for Ancien Régime	authoritarianism	durable
Uzbekistan	balance of power for Ancien Régime	authoritarianism	durable

**Medium-Longer Term, 1995-2005**

Case	Informal regime type	Formal Regime Type	Anti-regime reaction	Regime Durability
Kazakhstan	clan politics	authoritarianism	-	moderately durable
Kyrgyzstan	clan politics	authoritarianism	tulip revolution	weakly durable
Tajikistan	clan politics	authoritarianism	civil war of 1992-97	weakly durable
Turkmenistan	clan politics	authoritarianism	-	weakly durable
Uzbekistan	clan politics	authoritarianism	Andijan massacre	weakly durable

**Longer-term trends, 2010-2015**

Case	Informal regime type	Formal Regime Type	Form of governance	Democracy Index 2011	Political rights and civil liberties Freedom House 2015	Fragile States Index 2015
Kazakhstan	clan politics	soft authoritarianism economic liberalism	presidential toward parliamentary-presidential republic	3,24	not free	68 low warning
Kyrgyzstan	deregulation of clan politics after revolution of 2010	soft authoritarianism or hybrid regime	parliamentary republic	4,34	partly free	82 high waning
Tajikistan	clan politics	war-achieved authoritarianism	presidential republic	2,51	not free	83 high warning
Turkmenistan	clan politics	autocracy	presidential republic	1,72	worst of the worst	78 warning
Uzbekistan	supra-clannish nature of presidential power	hard authoritarianism and police control	presidential republic	1,74	worst of the worst	85 high warning

Sources: McFaul (2002, p. 227); Collins (2004, p.227); Bobokhonov (2012); Rotberg (2004, p.48); Democracy index 2011 (countries with index less than 2 are clearly authoritarian); Freedom House 2015; Fragile States Index 2015 (The Fragile States Index is an annual ranking of 178 nations based on their levels of stability and the pressures they face. The index's ranks are based on twelve indicators of state vulnerability - four social, two economic and six political. The Fragile States Index scores should be interpreted with the understanding that the lower the score, the better).

The rejection of democracy as a form of governance in the post-Soviet Central Asian states is largely related to the features of the process of privatization of state property that unfolded in these countries after the collapse of the Soviet Union. The struggle for the right to be the legal proprietors of state property meant that all rudiments of the former Soviet system of *nomenklatura*<sup>29</sup>, as well as the system itself (but in a new quality), remained intact. It should be noted that today, in some of the Central Asian republics the former members of the republican Communist parties still remain in power as presidents of these states.

From here, on the one hand, the aspiration of the “new” elite to retain control of obtained state property has led to the formation of a closed political system. On the other, the privatization of state property has resulted in the emergence of the preconditions for the formation of polycentrism, i.e. the simultaneous existence of multiple independent centers of power and property, whose interests did not always coincide with the interests of the state. Under these conditions, presidential power alone might be a stabilizing system factor (Syroezhkin, 2011).

Despite establishing a complete set of democratic institutions, in all Central Asian states there was an authoritarian throwback and movement toward strengthening the regime of personal presidential power, in the first place, by way the concentrating all political power within the executive branches of their respective governments.

Hale (2005, p.137) uses the term “patronal presidentialism” to define the super-presidential regimes established in the Post-Soviet space. The implementation of political authority by these regimes carried out “primarily through selective transfers of resources

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<sup>29</sup> The *nomenklatura* were a category of people (members of the Communist Party) within the Soviet Union and other Eastern Bloc countries who held various key administrative positions in all spheres of those countries' activity and whose positions were granted only with approval by the Communist party of each country or region.

rather than through formalized institutional practices, idea-based politics or the established rule of law”. In the author’s opinion, the transplant of democracy to the post-Soviet regimes is not successful “as the president holds too much power within and outside the political institution.”

In fact, it has often been noted that the presidential form of government has less functionality for the purposes of democratic consolidation, than parliamentary or semi-presidential forms of governance, and according to De Vergottini (2008, p.6), it has “a greater ability to favor phenomena of involution in the operation of the form of government”.

All states of the region (except in part politically unstable Kyrgyzstan) are characterized by models of personalizing authoritarian regimes, which are often called in literature “authoritarian – pluralistic” (Scalapino, 1989), “sultanistic” (Chehabi et al, 1998), “neopatrimonial” (Eisenstadt, 1973, cited in Dagiev, 2013), or are defined by the term “patrimonial nationalism” (Dagiev, 2013).

The “authoritarian-pluralistic” model of Scalapino combines undemocratic (even very repressive) management of political power with “acceptable or even encouraged economic and social pluralism” (Scalapino, 1989, p.71).

“Neopatrimonialism” is a term used to describe a political regime in which relationships of loyalty and dependence prevail over a formal political and administrative system. The personalistic nature of “neopatrimonialism” is similar to “sultanism”, where individuals who occupy office can use state power for their own enrichment, they are often presidents for life, dominating the state apparatus and standing above its laws (Dagiev, 2013). According to Chehabi et al (1998, p.7), “the contemporary sultanistic regime is based on personal rulership, but loyalty to the ruler is motivated not by embodying or articulating an ideology, nor by a unique personal mission, nor by charismatic qualities, but a mixture of fear and rewards to his collaborators”. “Neopatrimonialism” like “sultanism” lacks a state ideology, whereas ideology is a key component of the term “patrimonial nationalism”, “as the form of the authoritarian rule where the elites have unofficially imposed an ideology of nationalism centered around the person of the president” (Dagiev, 2013, p.9).

According to Bobokhonov (2009, p.256), “in the Central Asia republics for a variety of reasons (historical, geographical, legal, ethno-cultural and ethno-psychological), the choice of a new form of government was predetermined in favor of authoritarian rule in the spirit of the classical model of the «eastern monarchy»”.

However, the Central Asian regimes demonstrate various degrees in the personalized nature of their authoritarianism. Kazakhstan and Kyrgyzstan established types of presidential regime that can be described as “soft authoritarianism” with Nazarbayev and Atambaev; in Uzbekistan the “hard authoritarianism and police control” of Karimov; in Turkmenistan the autocracy of Berdymukhammedov; in Tajikistan, a war-achieved authoritarian regime by Raxmon.

On the one hand, authoritarian regimes hinder the establishment of independent civil society and the functioning of democratic institutions. On the other, in the early stages of independence the authoritarian regimes of the Central Asian states were capable of solving the important transformation goal, such as the maintenance of stability and order in the situation of transition from the disintegrating Soviet system to the creating of a new national statehood. Local authoritarianism in a certain sense somewhat compensated the authority and force of the former Soviet federal center which was the guarantor of stability.

The only Tajik government after gaining independence was unable to resolve the political crisis in the country and caused the acute struggle for supremacy between ethno-regional clans that led to a protracted and bloody civil war. The so-called “Tajik syndrome” became the external factor for other Central Asian states that has discredited the idea of simultaneous political transformation based on the Western democratic model and has promoted the peaceful development of the other states of the Central Asian region. In this sense, a positive factor for post-transitional democratic development of Central Asia states has been a minimal involvement of the state’s security forces in political life. Only in Uzbekistan the Ministry of Interior (MVD) and the National Security Service (SNB) have a significant impact on the political elites due to their large numbers and particular role for the stability of the regime (Zvyagelskaya, 2009).

Thus, the ruling Central Asian elites accepted authoritarianism as a governing principle by means of which the statehood of the new independent states could be

preserved during the transition from the Soviet regime toward democracy. At the same time, in the post-transitional period these “unconsolidated democracies” with an authoritarian form of government framed in such a way as to make it appear legitimate contributed to the ruling elites protecting their own power and personal benefits rather than promoting democratic development of their states.

In this context, the thesis proposed by Gerschewski (2013) may be used as a theoretical framework for the analysis of the sustainability of the authoritarian Central Asian regimes. The author argues that the political leaders are providing the sustainability of their regime in a non-democratic environment with the help of three key strategies such as cooptation, repressions and legitimation.

According to this concept, the main procedural factor producing continuity in authoritarian rule is an ability of a political leader to form an empowered coalition. In this sense, cooptation can be defined as the strategic measures of the authoritarian ruler, aimed at establishing strong regime relations with the elites in order to maintain their loyalty (see below: internal regime of clan politics). Cooptation also carries out the function of weakening and marginalizing the opposition. Bunce et al (2010, p.60) assert, in the conditions of «electoral authoritarianism»<sup>30</sup> “the formation of a united opposition on the eve of the election or during the election undermining the ability of oppositions to mount effective electoral challenges” became the key issue for the incumbent leader.

Repression, as the second strategy of an analytic framework providing the sustainability of the authoritarian regime in the interpretation of Wintrobe (1998; cited in Shkel 2014b), is not only an act or threat of physical violence, but also other measures restricting political freedom of citizens. With reference to authoritarian Central Asian regimes, it may be mentioned that in all states of the region authorities repress all forms of free expression and do not allow any organized political opposition, independent media, or religious freedom.

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<sup>30</sup> According to Schedler (2006, p.3), electoral authoritarianism characterizes regimes that present an illusion of multi-party democracy and render parliament and the chief executive elections “instruments of authoritarian rule, rather than instruments of democracy”. Incumbents use a variety of techniques to ensure their reelection; these range from harassment of the opposition and civil society organizations to control over the media to manipulation of vote tabulations.



In Central Asian states thousands of human rights and opposition activists, journalists, religious believers, artists and others are imprisoned on politically motivated charges. Across the region, impunity for torture remains the norm (Human Rights Watch, 2015).

The Freedom House (2015)<sup>31</sup> considers Uzbekistan and Turkmenistan among the eight most authoritarian and repressive state of the world “worst of the worst” in terms of respect for political rights and civil liberties.

According to a number of new theories, legitimation (the third strategy providing the sustainability of the authoritarian regime) is on the periphery of research interest since authoritarian power is not based on the opinion of the majority of the population. Nevertheless, the first two strategies (cooptation and repression) require significant economic costs for their implementation, which makes the functioning of the authoritarian regimes based only on these mechanisms too expensive.

Gerschewski (2013) considers legitimation as an important pillar of modern forms of authoritarianism, defining it as the actions of the incumbent leader aimed at building relations between state and society in order to form active support, observance of established rules, or simply tolerance on the part of the elites and wider social groups. A variety of these instruments include nationalist or religious ideologies; populism; “developmentalism” or propaganda of the regime’s economic success; personality cult of the incumbent leader; artificial creation of the threat of social destabilization in order to convince the population of the necessity to tighten the regime to preserve society’s safety. Moreover, authoritarian leaders often effectively use democratic instruments to legitimize their regimes. In particular, presidential elections and referendums can be held to demonstrate support of the authoritarian leader on the part of the population.

O’Donnell et al (1986, p. 15) say that authoritarian regimes “practice dictatorship and repression in the present while promising democracy and freedom in the future. Thus, they can justify themselves in political terms only as a transitional power, while

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<sup>31</sup> <https://freedomhouse.org/report/freedom-world/freedom-world-2015#.Vk8oEHYvflU>. Freedom in the World 2015. Interactive Map.

attempting to shift attention to their immediate substantive accomplishment - typically, the achievement of «social peace» or economic development.”

In the post-Soviet Central Asian states, the incumbent presidents implement all these strategies (cooptation, repressions and legitimation) in order to provide the continuity of their authoritarian regime and thereby undermining the possibility of democratic development in these countries. We will examine below the four most vividly expressed instruments for implementing these strategies by Central Asian incumbent presidents.

### **1.3.1 Informal regime of clan politics (as an instrument for implementing the strategy of cooptation)**

Clan and tribal structures<sup>32</sup> of Central Asian republics are a strong and resilient form of social organization that have shown their viability during the 70 years of Soviet rule. Despite the attempt to modernize Central Asia states by eliminating clans (for example, Andropov-Gorbachev’s “Cotton campaign”<sup>33</sup> in Uzbekistan and Kyrgyzstan), they were able to survive the Soviet onslaught because of their informality, strong kin-based network, and ability to use Soviet institutions to achieve their aims.

Clan structures reemerged in the post-Soviet period and clan networks increasingly pervaded all Central Asian societies. The most vivid clan division of the regional (territorial) criteria among all the Central Asian states characterizes Uzbekistan. The tribal structure of Kazakhstan is divided into three main regional *Juz* (tribal unions) in correspondence to the historical Great Horde division. The political clan’s polarization of the Kyrgyzstan comes along the north - south line. In Tajikistan, the clan system is based on four major ethnic and regional groups under the leadership of the Kuliab clan, which came to power in the country in the civil war. In Turkmenistan, leadership in political and

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<sup>32</sup> A clan is not (but is sometimes confused with): clientelism, patronage, corruption, blat, mafias, regions, ethnic groups, nations, or tribes. The term “clan” refers to the smaller subgroups of tribes. But in Central Asian these terms are used interchangeably, in part because there are numerous, distinct ethno-linguistic groups that are often smaller in size (Collins, 2006, p.35-38).

<sup>33</sup> From 1984 to 1988, Moscow staged massive purges of the dominant clans in Uzbekistan and Kyrgyzstan. Gorbachev installed a large ethnically Russian cadre from Moscow in most positions of economic and political power. All told, his efforts to shake up the traditional system of power resulted in the imprisonment of an estimated 30,000 Central Asian leaders (Collins, 2002, p.144).

economic life belongs to the tribe Ahalteke, concentrated around Ashgabat (the capital of the country).

Collins (2004, p.231) describes the political relations in Central Asian as «politics of clans» that are characterized “by the informal competition and deal making between clans in pursuit of their own interests” (ibid, p.224). Collins (2006, p.233) argues that “the clans serve as an organization for passive resistance against a state repression that allows them access to institutional channels of survival”.

Clans are the powerful political actors that have had profound influence on the nature of transitional and post-transitional authoritarian regimes in the Central Asian region and on the durability of these regimes. In the early stage of independence, inter-clan informal pacts<sup>34</sup> promoted peaceful political transition in Uzbekistan, Kyrgyzstan, Kazakhstan, and Turkmenistan. Meanwhile, in Tajikistan where there was no pact among elites, inter-clan contradictions led to regime breakdown and to one of the longest bloodiest post-Soviet conflicts.

Collins (2004, p.228) says that the Central Asian cases offer a critique of the central hypothesis of the transitology paradigm, “that a «pact» is the mode of transition most likely to cause democratization.”

According to McFaul (2002, p.213), clan pacts, or “power-sharing arrangements negotiated during transition” have generally been followed by authoritarian throwbacks in Central Asia; only in Kyrgyzstan did the clan pact contribute to a brief period of democratization in the early stages of its independence. Thus, it can be assumed that clan pacts are not a mode of transition to democracy but an informal agreement that fosters the durability of the political system, independently of the regime type (table 1.3).

On the one hand, inter-clan pacts contributed to the strengthening and legitimization of authoritarian regimes in Central Asia in the short term because the impact of the leader’s ideological orientations, elites, and formal new political institutions was very limited. On the other, clan networks breach the constitutional separation of powers and

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<sup>34</sup> According O’Donnell et al (1986, p.37), “a pact can be defined as an explicit, but not always publicly explicated or justified agreement among a select set of actors which seeks to define (or, better, to redefine) rules governing the exercise of power on the basis of mutual guarantees for the «vital interests» of those entering into it.

break down parliamentary and court independence that suppress the consolidation of both democratic and authoritarian regimes and in the long term may undermine regime viability. Moreover, an informal regime of clan politics has sharply polarized society in the Central Asian states in terms of property ownership and led to stagnant poverty in these countries, creating a permanent threat of social explosion.

In the post-transitional period, the leaders of the Central Asian states have raised the issues of maintaining states apart from clan domains or even their elimination from the political scene because clans significantly increased in power during the transitional regime. The attempt to neutralize clan networks in politics was above all, triggered by a threat that clan rivalry would infiltrate the army.

In this connection, Karimov's regime in Uzbekistan for some last years has managed to eliminate the dependence of the central government on the traditional rivalry of clans and regional groups, considering that clan struggle threatens the republic's stability. Nevertheless, he does not deny the existence of clans and maintains a balance between them, but actually, clans no longer play a central role in the distribution of power in Uzbekistan.

At the same time, Kazakhstan and Turkmenistan's energy wealth and increasing GDP have not made them immune to clan politics. Instead, Nazarbaev and Berdimuhamedov use their greater revenues to neutralize clan rivals and increase their personal power. The change of power in Kyrgyzstan in April 2010 led to the deregulation of the clan-political structure of the country and pushed rival clans towards a redistribution of power and property that became the main factor of further destabilization in the country. In Tajikistan, the Kuliab clan continues to play a central role in the political life of the country after its rise to power during the civil war.

### **1.3.2 The ideology of nationalism (as an instrument for implementing the strategy of legitimation)**

During the process of regime change, leaders of the Central Asian republic applied the ideology of nationalism, which allowed them to legitimize authoritarian regimes and strengthen their power in the new independent states. The only exception was Turkmenistan, where there was no potential threat to its stateness due to the high degree

of ethnic homogeneity of the population in comparison with other Central Asian states (Dagiev, 2013). To implement this policy, ruling Central Asian elites have altered Communist parties into nationalist parties and represented the image of current presidents as national leaders and state builders.

Dagiev (2013, p.2) asserts that “by employing patrimonial nationalism, the ruling elites are aiming to achieve also several other objectives, such as: a) filling the post-Communist’ ideological void; b) giving a stronger sense of national belonging to their titular nation; c) maintaining the stateness of their respective countries and the national unity of their nations; d) preventing the re-emergence of Islam and other competing ideologies.”

According to Cummings (2012, p.6), the “deployment of «nationalism» by Central Asian elites is one of the principal contributing factors undermining the process of transition from Soviet authoritarianism to democratization.”

In all Central Asian countries, the 1990s were marked by experiments in the selection of ideological constructs. Different national ideas were taken in consideration. Kazakhs identified themselves with Abylaja’s legacy and other khans of the Golden Horde; Kyrgyz – with the legendary ancestor Manas, which left the “seven commandments”; Uzbeks – with Emir Temur, and later adopted a concept of “Uzbekchilik” developed under the rule of President Karimov; Tajiks - with Ismail Samani, the founder of the Tajik nation; Turkmen - with Seljuk Sultan. The personification of the greatness of the past and the present of Turkmenistan was also the book “Rukhnama”.

Ideologists of Central Asia states could not avoid the temptation to argue the national identity of the population in the new independent republics by intentionally “ancientizing” the history of the dominant ethnic groups in them. Nevertheless, the majority of the population does not perceive historical personages too remote in history as very appealing.

The reclamation of national identity through declaring the titular language as the state language along with efforts to limit the role of the Russian language in public life was common throughout the region. Currently, Russian has been declared the language

of “interethnic communication” in three Central Asian states except Uzbekistan and Turkmenistan (Landau et al, 2012).

Thus, issues of national identity and the construction of a national ideology acceptable for the majority of the population remain very acute for all the Central Asian republics that have emerged as a product of Soviet nationality policy and whose population for thousands of years did not have an independent national statehood.

### **1.3.3 Phenomenon of retraditionalization of the regimes (as an instrument for implementing the strategy of legitimation)**

The transformation of Post-Soviet regimes has led to a revival of a number of traditional institutions that allow control not only of the mass consciousness of the population with the help of traditions, but it is simultaneously a mechanism for state control over the lives of the citizens.

Among these “new” institutions are “men’s clubs” in Tajikistan; *mahalla* and *kishlak* (social institutions built around familial ties and Islamic rituals in urban districts and in rural villages respectively) in Uzbekistan, Kyrgyzstan, and Tajikistan; *avlod* (territorial- family clans united by a common place of birth and a common tribal ancestor) in Tajikistan and Uzbekistan. The old wisemen *aksakal* (literally “white beard”) are recognized as an undisputed authority in all Central Asian states.

In view of the ruling elite, the enclave-conglomerate structure of the society (in which enclaves of modern and traditional co-exist) represent the best way to keep peace and social stability (Bogaturov et al, 2002). That is why some leaders of the Central Asian states have appropriated attributes not only as the constitutionally legitimate presidents, but have also associated their names with historical and national heroes, and even pseudo-monarchs. This allowed them to appear in the eyes of their fellow citizens as the Fathers and protectors of the nation (for example, Nazarbaev from 2010 was legally assigned the title of leader of the nation “Elbasi”; Berdimuhamedov in 2010 was given the title “Arkadag,” or “Saint Protector”; Turkmenbashi, meaning Father of all Turkmen, was President Niyazov).

With regard to political behavior, retraditionalization was revealed in the habit of participating and voting in elections in accordance with the advice of “elders” in the traditional sense of terms: chiefs of clans and groups, mullahs, elder male relatives or in their absence, just men.

Thus, the phenomenon of retraditionalization of the regimes has emerged in Central Asian states as a component of the policy of national resurrection aimed to fill the post-Soviet ideological void and to give legitimacy to authoritarian regimes in the region.

#### **1.3.4. The Islamic factor (as an instrument for implementing the strategies of legitimation and repression)**

Central Asia is the only completely Muslim region in the post-Soviet space. After a relatively short period of limiting influence of Islam in the Soviet period (which led to differentiate the CAR from other areas of the Muslim World<sup>35</sup>), it strengthened its position in the post-Soviet era.

Historical and geographical factors exerted a significant impact on the rebirth of Islam in the region. During the national-state demarcation in the Soviet period, which aimed to reduce the spread and influence of pan-Turkism in the region, the CAR were divided into various republics. As a result, the Fergana Valley was divided among Kyrgyzstan, Tajikistan and Uzbekistan, the Shash oasis became part of Uzbekistan and Kazakhstan, and Transoxiana became part of Turkmenistan, Uzbekistan and Tajikistan. The most intensive rebirth of Islamic political activity occurred in accordance with these geographical and administrative-territorial fractures (Abazov, 1995).

In comparison with Soviet regionalism, Islamic ideology has not divided people by ethnicity and nationality criteria, but has offered a much broader basis for national identity acting as a consolidating force in the Muslim republics of Central Asia.

Moreover, the phenomenon of turning to religion was well-known for centuries as a reaction to poverty, misery and a lack of social prospects. The Soviet system of social

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<sup>35</sup> The faith is based on the Sufi doctrines, with personal non-rigid observance of the Koran, to which are added shamanic practices and the worship of saints. The cradle of spirituality in Central Asia is situated in the Fergana Valley.

security, which supported the principle of equality was destroyed, but Central Asian society was too weak to create something to replace it right away. As a result, the problem of poverty became acute. Today, almost the entire region is confronted with a profound deterioration of the social living conditions.

According to the UNDP report (2011, p.18), in 2005, the percentage of children in households with an income of less than 2.5 USD a day per capita was 90 percent in Kyrgyzstan, 80 percent in Uzbekistan and 75 percent in Tajikistan. The problem of poverty and lack of social support of the population led to a rejection of democracy and the enhancement of the positions of the political forces, supporting alternative models of development, the Islamic one in particular.

A significant factor of the growing influence of Islam in Central Asia was also the crisis in public consciousness. After the disappearance of the Soviet ideology, which had coordinated the interests of polytechnic groups in Central Asia, the new political power was unable to provide any national identity-giving ideology; as a result, this ideological void began to be filled by Islam.

Islam cannot be viewed as a factor responsible for the failure of democratic transition in Central Asia, but it contributed to the development of nationalism in the region, for the ruling elites saw Islam as a competing ideology, which could threaten their secular form of state (Dagiev, 2013). At the same time, Islam has been actively used by the authoritarian regimes as a tool for creating a new national identity and legitimization of their political power.

A complex of objective and subjective reasons (including repression and persecution by the dominating regimes of Islamic activists) created conditions for the emergence and expansion of radical Islam in the region. Hizb-ut-Tahrir al-Islami (HTI)<sup>36</sup> and the Islamic Movement of Uzbekistan (IMU)<sup>37</sup> are the two main Islamic organizations that have both challenged the stability of the authoritarian regimes across the region.

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<sup>36</sup> HTI is the most powerful and branched international organization covering the entire region that aims to unite Muslims through creating a theocratic supranational Caliphate based on Sharia. Democracy represented for them a system of infidels.

<sup>37</sup> IMU is a national Uzbek organization set up in 1966 by Islamic militants, which in the early 1990s began their political activities in the Fergana Valley. "The IMU's focus on overthrowing Karimov's regime and seizing power in Tashkent" (Naumkin, 2005, p. 264).



Extremist organizations were involved in the civil war of 1992-97 in Tajikistan; in the Batken incidents of 1999 -2000 in Kyrgyzstan and Uzbekistan; in the coups d'état of 2005 and 2010 in Kyrgyzstan; in the Andijan massacre of 2005 in Uzbekistan, and in subsequent terrorist attacks throughout the region. Moreover, in Central Asia recently identified cases of recruitment of militants for the extremist group “Islamic State” (IS)<sup>38</sup>.

The fight against extremist organizations remains one of the most important tasks for ruling elites in ensuring regional security in Central Asia. The activity of Islamic organizations in Uzbekistan was cruelly suppressed by the Karimov police regime, many Islamists were forced to leave the republic, or go underground. In Kazakhstan, Kyrgyzstan, Turkmenistan the activities of Islamic organizations either were banned or were taken under the strictest control by the authoritarian regimes.

Nevertheless, it cannot be excluded that the widespread use by authorities of the Central Asian states of the Islamist radical label as a pretext to fight with the political opposition, is often greatly exaggerated in order to legitimate repressive regimes in the states, as well as to gain additional funds from Western countries.

Khalid (2007, p.191) asserts, “Central Asian regimes justify their policies toward Islam as a defense of secularism, which allows governments to legitimate their own authoritarian policies by casting all opposition as extremist. Even though Islamic militancy may pose some danger to the regimes, the danger the regimes pose to ordinary pious Muslims is far greater.”

Although Islam was not able to overthrow the local secular regimes, it has become the *Achilles' heel* for secular Central Asian states.

According to Seifert (2012, p.17), “the government must make an effort to create a political *modus vivendi* within the framework of a secular-Islamic negotiation process. This is the key question for the political survival and consolidation of the state. For this, there needs to be a joint elaboration of a democratic mechanism, which makes nonviolent

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<sup>38</sup> <http://www.golos-ameriki.ru/content/congress-isis/2816806.html> Центральная Азия и Россия как платформы для вербовки боевиков «Исламского государства» (Central Asia and Russia as a platform for recruiting militants for “Islamic state”). F. Tlisova, June 11, 2015.

cooperation of both sides possible.” In this sense, the Tajik model presents a version of possible synchronization between secularism and Islam.

Thus, instruments applied by incumbent Central Asian leaders to produce continuity of their authoritarian rule have become one of the main obstacles for democratic development in these states, namely: inter-clan pacts in the short term (in the long term, clan networks may undermine regime viability); ideology of nationalism as the consequences of Soviet regionalism; retraditionalization of the regimes as a component of the policy of national resurrection; the Islamist radical label as a pretext to fight with the political opposition.

Based on the conceptual framework for determining the democratic governance proposed above (see p. 42 of this paper), these features of Central Asian states can be referred to internal factors (as specifics of social, cultural, religious, economic and historic development of the state) that have determined the trend of keeping a distance from the Western democratic model.

#### **1.4. The issues of the legitimacy of the regimes and the prospects of democratic modernization in the Central Asian countries**

According to Bogaturov (2010, p.113), in contrast to open-type Western society, “Central Asian society represents a closed-type structure that has not yet freed itself from being tied down to particular paternalistic structures, clans, regional groups, and, very often, forms of pre-nation social awareness.” The liberalization of the political systems of Central Asia “cannot happen ahead of changes in regional cultures; i.e. shifts in the basic concepts of sufficiency or excess, the attractiveness of «freedom» or «non-freedom», individual competition or communal-corporate solidarity, personal responsibility (and equality) or patronage (and subordination)” (ibid).

All these features of Central Asian society are directly linked to the issue of where the output from political transformation deadlock is and, consequently, what objective should be pursued by the political system, if bearing in mind the prospect of democratic modernization. So far, neither Western schemes nor the ruling Central Asian elites have given answers to these questions. The Western concepts proposed can only suggest some general approaches. The Central Asian states need to determine by themselves the

specifics for the application of these schemes and to search their own paths for further political development. Thus, the key issue of Central Asia states is the advancement of their “own” democracies in line with their social structure, cultural and political norms.

On the one hand, as has been demonstrated in this chapter, Central Asian states do not have all the required social and political prerequisites that can be assessed in accordance with the criteria used in the Western political system. On the other, repudiation of democracy and the maintaining of an authoritarian form of government no longer correspond to the current challenges and threats standing in front of Central Asian states, nor to the development prospects of the entire region.

The stabilizing and regulatory capacities of Central Asian authoritarian regimes have recently begun to manifest an alarming tendency towards stagnation and even to degradation. The common risks of instability of authoritarian regimes presented currently across the region are connected with some contradictions.

**Firstly**, the artificially formed Soviet era borders and national identities (which Central Asian countries have been able to maintain after gaining independence) have provoked ethnic tensions and controversies related to water and land distribution and have caused reciprocal complaints between the states across the region.

Linz et al (2000, p.25) define this problem as “statehood”, “when there are profound differences regarding the definition of the territorial boundaries of the state, corresponding to a certain political community, and who has the right to citizenship in that State” (figure 1.3). This can play a decisive role in the deepening of the crisis of non-democratic Central Asian regimes. In connection to this, the issues of territorial integrity and the possible scenarios of the breakdown in such countries as Tajikistan, Uzbekistan and Kyrgyzstan have been repeatedly discussed. The incumbent leaders of these Central Asian states have managed to contain these contradictions by using authoritarian methods in the early stage of independence but in spite of this, currently, the threat of an outburst of conflicts within countries remains very high (above all in Kyrgyzstan). The opposition and criminal forces might use these reciprocal contradictions against authoritarian regimes to achieve their own objectives.

**Secondly**, it is a crisis of national identity and conflict between democracy and nationalism as the two basic values of post-communist transformation. In contrast to

democracy that suggests unlimited possibilities for civil and legal self-determination, nationalism is focused on the principles of national self-determination and sovereignty. In conditions of high ethnic heterogeneity of the population in the region, nationalism emphasizes the superiority of some nations over the others, thereby splitting the society based on ethno-national criteria and preventing the emergence of an authentic civil society. The inability of authoritarian regimes to provide any unifying national identity-giving ideology aggravates the problem of poverty, while the lack of necessary economic reforms and interethnic contradictions within countries enhance the positions of the political forces supporting alternative models of development, the Islamic one, in particular, thus threatening a secular form of state.

**Thirdly**, there is a permanent crisis of legitimacy of post-Soviet authoritarian regimes, connected with the conflict between the legality of decisions and actions of the government and their legitimacy in the eyes of society. The “Andijan Massacre” in Uzbekistan in 2005, the “tulip” revolution in 2005 and subsequent “counterrevolution” in 2010 in Kyrgyzstan have become the most visible expressions of the crisis of legitimacy of an authoritarian regime.

In the opinion of Medushevsky (2014, p.501), “the features of the phenomenon of «color revolutions» in the post-Soviet space as an anti-regime reaction look not to destroy the political system nor to renounce the old Constitution in the name of the new one, but to protect the current Constitution against the political regime, which has been violating the provisions of its own basic law.”

The challenges of the crisis of legitimacy of authoritarian regimes proposed in the countries of the region were different, but in most cases were reduced to the choice of the form of government: a parliamentary form of government (Kyrgyzstan), a parliamentary-presidential form (Kazakhstan), or legitimation of traditional authoritarianism in the presidential regimes (Tajikistan, Turkmenistan, Uzbekistan). Despite the diversity of chosen governance models by Central Asia states, none of them has solved the problem of political stability and led to the functioning of the political institutions.

Currently, the presidential branch of power (even though with some reservations) is the only capable political institution in the Central Asian region, which itself rests on the authority of the incumbent leaders of the state (Zvyagelskaya, 2009).

The attempts to further maintain these forms of government based on an independent super-presidential power<sup>39</sup> while lacking the institutional mechanism for leadership succession only increase systemic contradictions. These contradictions under certain circumstances (for example, the aggravation of the Islamic factor, or inter-ethnic and inter-clan conflicts) can lead to large-scale political collisions and to a real war among elites for the redistribution of power and property (Bogaturov, 2010).

Moreover, the impact of external factors might also destabilize the situation in the weak links of the Central Asian space and trigger the “domino effect” across region. Among them are the recent events in the Middle East (the so-called “Arab Spring”) that some political scientists refer to as a “fourth wave” of democratization even if this may be premature since the fate of these transitions is currently extremely uncertain<sup>40</sup>; unpredictable consequences for the security and the capacity of Central Asian states to deter militant groups of Islamic extremists connected with the withdrawal of most NATO troops from Afghanistan in December 2014; the continuing conflict in Ukraine and in Syria.

These global challenges and threats have raised concerns for Central Asian incumbent leaders about the possibilities of contagion and the loss of power in their countries and have pushed them to strengthen the measures of social control in order to prevent emulation. In this regard, the last presidential elections held in the Republics of Kazakhstan and Uzbekistan (in April of 2015 and in March of 2015 respectively) were directed in the first place towards reducing the scale of intra-elite contradictions and the possibilities of social unrest in these countries (Malashenko, 2015).

The upcoming wave of natural replacements of incumbent leaders, many of whom have been in power for nearly a quarter century, induce the need to continue democratic modernization started by them towards free and transparent elections, real multi-party

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<sup>39</sup> The institutional transition from a presidential to a parliamentary republic in Kyrgyzstan cannot be regarded here as successful because a constitutionally formed parliamentary system does not have a strong social and economic base and is evidently premature.

<sup>40</sup> <http://www.limesonline.com/rubrica/in-kazakistan-chi-protesta-non-vota> La rivolta esplosa nella città petrolifera di Zhanaozen nel dicembre 2011 prima delle elezioni fu interpretata come l’inizio di una primavera araba in Kazakistan (The revolt that exploded in the oil city of Zhanaozen in December 2011 on the eve of the parliamentary election was interpreted as the beginning of an Arab Spring in Kazakhstan). C.Tosi. January 9, 2012.

competition and independent media. However, forced democratization can be dangerous for the political and social viability of Central Asian states as the further attempts to remain within “the paradigm of surface reformation” which stabilizing and regulative capacity has been already largely exhausted.

## **Chapter 2. Economic development of the Central Asian region and its states after the collapse of the Soviet Union and the gaining of independence**

### **2.1 Connecting Central Asian republics with a common economic space of the Soviet Union before its disintegration**

Within the former Soviet Union, the fifteen<sup>41</sup> Soviet republics were considered a single economic space, or “a unified currency area” (Kaufman et al, 1993, p.416). The administrative borders, which became state borders after the collapse of the Soviet Union and the gaining of independence of its successor states, were not taken into account in economic inter-republican relations.

Soviet Central Asian republics had a special place in the inter-regional and inter-sectoral division of labor, with a particular focus on the supply of products of the oil and gas industries, non-ferrous metallurgy, agriculture and light industry to the domestic market of the Soviet Union, although the specific resource endowment varied from country to country (table 2.1).

Central Asia was the most heavily rural part of the USSR, the share of manual labor in agriculture according to Soviet statistics varied from 85 up to 93 percent (Kazanzev, 2010). Kazakhstan was the only one of the five Central Asian republics with over half of its population living in urban areas. The Kazakh republic has had a more diversified economy specialized in grain exports and a variety of mineral and energy resources. The Uzbek economy was dominated by cotton, as were the other neighboring Central Asian republics. Turkmenistan had experienced a boom in natural-gas production during the last decade of the USSR, while the mainly mountainous Kyrgyz and Tajik republics had fewer exploitable resources (Pomfret, 2006).

According to Omarov (2008), the contribution of Central Asian economies accounted for 20 percent of coal, 18 percent of gas, 33 percent of gold, and 92 percent of cotton extracted and produced in the former USSR.

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<sup>41</sup> Russia, Estonia, Latvia, Lithuania, Belarus, Moldova, Ukraine, Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan.

Table 2.1 Inter-republican trade of Russia and the Central Asian republics according to sectors of the economy in 1988 (million rubles).

Sectors of the economy	Russia			Kazakhstan			Kyrgyzstan		
	Input (import)	Output (export)	Balance, $\Delta$ output-input	Input (import)	Output (export)	Balance, $\Delta$ output-input	Input (import)	Output (export)	Balance, $\Delta$ output-input
<b>Total of material production sectors</b>	68 963.9	69 224.2	260.3	13 686.4	8 337.1	-5 349.3	2 971.8	2 536.8	-435.0
<b>Industry, including:</b>	64 665.9	68 498.6	3 832.7	13 464.1	6 772.7	-6 691.4	2 900.1	2 423.9	-476.2
electric power industry	527.1	490.7	-36.4	343.5	190.0	-144.5	<b>29.9</b>	<b>78.1</b>	<b>48.2</b>
oil and gas industry	1 606.4	7 474.8	5 668.4	1 334.0	878.7	-455.3	314.3	11.4	-302.9
coal industry	183.1	461.7	278.6	<b>166.6</b>	<b>326.1</b>	<b>159.5</b>	31.4	21.6	-9.8
ferrous metallurgy	6 367.9	5 371.5	-996.4	1 010.9	862.9	-148.0	187.3	8.2	-179.1
nonferrous metallurgy	1 588.1	3047.1	1 459.0	<b>241.8</b>	<b>482.4</b>	<b>240.6</b>	<b>87.4</b>	<b>128.6</b>	<b>41.3</b>
chemical and petrochemical industry	6 189.2	8 252.7	2 063.5	1 462.3	966.3	-496.0	338.6	24.7	-313.9
machine building and metal working	20 848.9	27 114.5	6 265.6	4 646.2	776.0	-3 870.2	974.8	938.8	-10.0
wood, wood-processing, pulp and paper industries	795.9	4 177.2	3 381.3	772.9	25.5	-747.4	107.1	4.5	-102.6
construction materials industry	751.8	1 152.3	400.5	285.8	143.9	-141.9	64.6	12.7	-51.9
light industries	11 560.5	6 392.2	-5 168.3	1 539.5	1 402.0	-137.5	<b>470.9</b>	<b>650.8</b>	<b>179.9</b>
food-processing industries	13 135.0	2 598.3	-10 536.7	1 376.8	631.6	-745.2	<b>263.5</b>	<b>521.1</b>	<b>257.6</b>
other industry sectors	1 086.6	1 963.8	877.0	282.9	78.3	-204.6	56.3	23.4	-32.9
<b>Agriculture</b>	3 950.1	333.0	-3 617.1	<b>160.1</b>	<b>1 516.4</b>	<b>1 356.3</b>	<b>64.5</b>	<b>107.7</b>	<b>43.2</b>
<b>Other types of material production</b>	347.9	396.2	44.7	62.2	48.0	-14.2	7.2	5.2	-2.0



Sectors of the economy (continued)	Tajikistan			Turkmenistan			Uzbekistan		
	Input (import)	Output (export)	Balance, $\Delta$ output- input	Input (import)	Output (export)	Balance, $\Delta$ output- input	Input (import)	Output (export)	Balance, $\Delta$ output- input
<b>Total of material production sectors</b>	3 022.6	2 052.2	-997.4	2 486.0	2 389.2	-96.8	10 623.8	8 957.2	-1 666.5
<b>Industry, including:</b>	2 917.8	1 935.2	-982.6	<b>2 457.0</b>	<b>2 245.9</b>	<b>211.1</b>	10 217.3	7 700.5	-2 516.8
electric power industry	<b>60.5</b>	<b>67.0</b>	<b>6.5</b>	<b>8.9</b>	<b>58.9</b>	<b>50.0</b>	191.6	180.3	-11.3
oil and gas industry	295.9	16.8	-279.1	<b>100.2</b>	<b>750.6</b>	<b>650.4</b>	968.3	619.2	-349.1
coal industry	10.8	4.3	-6.5	6.6	0.0	-6.6	37.6	14.5	-23.1
ferrous metallurgy	127.7	3.4	-124.3	107.0	3.3	-103.7	652.8	111.4	-541.4
nonferrous metallurgy	<b>189.8</b>	<b>300.1</b>	<b>110.3</b>	9.4	5.2	-4.2	<b>364.3</b>	<b>468.1</b>	<b>103.8</b>
chemical and petrochemical industry	321.1	94.8	-226.3	200.1	150.4	-49.4	976.4	813.5	-162.9
machine building and metal working	783.0	207.0	-576.0	925.6	44.2	-881.4	3 152.2	1 203.2	-1 949.0
wood, wood-processing, pulp and paper industries	106.9	7.1	-99.8	103.1	0.3	-102.8	514.3	31.5	-482.8
construction materials industry	56.4	32.9	-23.5	53.5	20.9	-32.6	188.0	82.6	-105.4
light industries	<b>494.2</b>	<b>973.2</b>	<b>478.9</b>	<b>395.1</b>	<b>1 116.1</b>	<b>721.0</b>	<b>1 492.8</b>	<b>3 278.6</b>	<b>1 785.8</b>
food-processing industries	403.4	225.2	-178.2	433.9	95.3	-338.6	1 481.5	832.9	-648.6
other industry sectors	68.1	3.5	-64.6	113.6	0.7	-112.9	197.3	64.7	-132.6
<b>Agriculture</b>	101.5	79.9	-21.6	<b>28.2</b>	<b>137.2</b>	<b>109.0</b>	<b>348.6</b>	<b>818.0</b>	<b>469.4</b>
<b>Other types of material production</b>	<b>3.3</b>	<b>10.1</b>	<b>6.8</b>	<b>0.8</b>	<b>6.1</b>	<b>5.3</b>	<b>57.8</b>	<b>438.7</b>	<b>380.9</b>

Sources: The State Committee for Statistics (1991), Statistical compilation, pp.238-265 (Госкомстат, Сборник статистических материалов).

It is important to note that during the Soviet era economic activity of Central Asian republics was defined and subordinated to the instructions from the State Planning Commission (Gosplan) of the Soviet Union. The Gosplan administered the pricing system and defined goals of physical production for the entire economy of USSR (Pomfret, 2006).

A command economy of USSR was characterized by “a resource mobilization towards rapid industrialization”. The structure of the Soviet economy with its typical bias towards heavy and military industries, fuel and raw material orientation was reproduced in many Soviet republics including the Central Asian republics.

Laruelle et al (2013, p.117) assert “under the Soviet regime, a number of industries operated at a loss, as they answered not to commercial logic but to considerations related to the managed economy that prioritized over light industry, or to development, which endowed each republic with an economic niche that contributed to the overall Soviet structure.”

Thus, production capacities and infrastructures in Central Asia republics were created in accordance with the needs of the Soviet economy. Without the importation of many kinds of machines and equipment, chemical products, fuel and raw materials from other Soviet republics and primarily from Russia, the functioning of most of the Central Asian economies would have been practically impossible (Lounev, 1999).

The USSR realized in Central Asia a specific variant of modernization, which was in many respects a derivation of the model that was typical for Russia itself. Vishnevsky (1998, cited in Kazantsev, 2010 p.3-4) asserts “the basic contradiction of Soviet modernization can be explained on the basis of the ideology of «conservative revolution»: creation of highly modernized and industrialized centers (for example, in the spheres of military or space hi-tech) based on traditional archaic institutions in other, more basic spheres (for example, revival of the institute of traditional forms of integration in the form of collective farms in the villages).” The paradox was that “in overpopulated and labor-redundant Central Asia industry, transport and, in general, city life during the Soviet period were established and maintained mainly due to migration of highly skilled Russian-speaking specialists to the region” (Kazantsev, 2010, p.4).

During the years of perestroika<sup>42</sup> (1985-1991), the Popular Front leaders<sup>43</sup> successfully exploited the idea that the economies of Soviet republics had a colonial character and were the raw material appendages of their metropolis - Russia. However, none of the former Soviet republics was a raw material appendage of Russia. Industrial sectors were developed in all of them. The structure of the Gross social product (GSP)<sup>44</sup> demonstrated that in 1989, the share of the industrial sector on average accounted for 60.5 percent of GSP of the Soviet Union; in Kyrgyz SSR - 56.4 percent; in Tajik SSR - 54.8 percent; in Uzbek SSR - 54.3 percent; in Turkmen SSR - 45.2 percent; in Kazakh SSR - 45.2 percent. In the early 1920s, the ratio of maximum and minimum values of this index was 40:1, and by the end of the 1980s - 1.4:1 (Sitaryan, 1991, p.3).

Furthermore, all Central Asian republics received subsidies from Russia. According to the calculations of the Institute of Economic Forecasting of the Russian Academy of Sciences, the Soviet system of inter-republic economic relations included the transfer of 6.6 percent of Russia's national income to the other Soviet republics (Lounev, 1999).

For example, in 1991 the direct centralized subsidies from Russia to the Central Asian republics amounted for 44 percent of the budget of Tajikistan, 42 percent of Uzbekistan, 34 percent of Kyrgyzstan, 23 percent of Kazakhstan, 22 percent of Turkmenistan (Marnie et al, 1993, p.34). Some researchers consider even these numbers underestimated owing to the existence of indirect subsidies connected with the supply of products from Russia to the Central Asian republics at reduced domestic prices in comparison with world prices.

In connection to this, it is important to note that "Tajikistan, Uzbekistan and Turkmenistan paid nothing into the union budget; the contributions of Kyrgyzstan were

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<sup>42</sup> The literal meaning of perestroika is "restructuring", referring to the restructuring of the Soviet political and economic system. Perestroika is often argued to be the cause of the dissolution of the Soviet Union, the revolutions of 1989 in Eastern Europe, and the end of the Cold War (Heuvel et al, 2009).

<sup>43</sup> The Popular Fronts were one of the forms of association of supporters of perestroika, which defended the new ideology of the USSR and supported the deepening of political and economic reforms.

<sup>44</sup> Gross social product was defined in the Soviet Union by adding up all goods and services provided for a certain period (usually for the year). At the same time, double counting took place. For example, if the components produced by one plant were sold to another plant, the cost of these were taken into account once again in the value of the finished product. Gross social product was used in the calculations in the Soviet Union until 1991. Since 1988, in parallel with this indicator the gross domestic product (GDP) used in most countries of the world has been defined.

insignificant. Only Kazakhstan was seriously financing the union government” (Khrustalev, 1994 cited in Kazantzev, 2010, p.9).

At the same time, Kaufman et al (1993, p.10) says that “the CIA and other Western estimates were undertaken in the belief that many of the numbers furnished by the Soviet statistical agency were seriously flawed. Under Soviet rule official secrecy and the absence of market prices hid real growth rates, inflation and other indicators from view.”

Kaufman et al (1993, p.6) analyze what was a “politically charged question in the Soviet Union: who gained and who lost the most from inter-republic merchandise trade, or “who’s feeding whom?” The authors find that “if one uses world market prices, Russia is by far the largest net creditor, largely because of its energy exports to the other republics. All other republics have modest to large negative balances.”

According to statistical data, Russia in 1986-1990 effectively had a stable positive inter-republic exchange balance, while the Central Asian republics had a stable negative inter-republic exchange balance (except for Turkmenistan) (table 2.1; table 2.2).

Table 2.2 Inter-republic and foreign trade balances of the Soviet republics in the world prices in 1988 (billion rubles)

Soviet Republics	Inter-republic trade balances	Foreign trade balances	Total balance
<b>Russia</b>	<b>+23.88</b>	<b>+6.96</b>	<b>+30.84</b>
Azerbaijan	-0.24	-0.21	-0.45
Armenia	-1.06	-0.31	-1.37
Belorussia	-1.59	-0.46	-2.05
Estonia	-1.06	-0.24	-1.30
Georgia	-1.61	-0.30	-1.91
<b>Kazakhstan</b>	-5.94	-0.64	<b>-6.58</b>
<b>Kyrgyzstan</b>	-0.54	-0.52	<b>-1.06</b>
Latvia	-0.99	-0.32	-1.31
Lithuania	-3.33	-0.36	-3.69
Moldava	-2.22	-0.41	-2.63
<b>Tajikistan</b>	-1.20	<b>+0.08</b>	<b>-1.12</b>
<b>Turkmenistan</b>	<b>+0.1</b>	-0.06	<b>+0.04</b>
Ukraine	-1.57	-1.32	-2.89
<b>Uzbekistan</b>	-2.63	<b>+0.09</b>	<b>-2.54</b>

Source: Granberg et al, 1997, p.17.

By converting inter-republic trade into world market prices, the inter-republic exchange balance of Russia was even more positive. In fact, Russia was the donor of most Soviet republics, and thanks to its subsidies provided the functioning of the common economic space of the Soviet Union.

The USSR had a tightly integrated economy with great mutual dependencies between regions. The Soviet republics were closely related to each other due to rigid specialization and the monopolistic production of commodities. In 1990, in all Central Asian republics (except Kyrgyzstan), the share of inter-republic trade accounted for almost 90 percent or more both of total exports and imports (table 2.3).

Nonetheless, the Soviet model of modernization of Central Asia was causing serious problems to Russia. Even in view of price disproportions in the Soviet economy (“the underpricing of energy and overpricing of manufactured goods”), the republics of Central Asia were getting from Russia more than they were giving to it, except for Turkmenistan that was the major suppliers of oil and natural gas on the common market of the USSR (Pomfret, 2006). Turkmenistan received almost nothing from Russia due to its oil and gas wealth and the Soviet system of pricing, which artificially subsidized the finished products and reduced prices for raw materials (Kazantzev, 2010).

According to widespread agreement among specialists regarding the general trends, the Soviet Union was unable to reverse or arrest the long-term slowdown in growth that began in the 1960s and grew steadily worse.

Kaufman et al (1993, p.1) notes that “Gorbachev’s policy of heavy investments, especially in high technology sectors, achieved some degree of success in 1986-88, posting high growth rates in industry, agriculture, and construction. By 1989, however, the industry, construction, and transportation sectors experienced a downturn, partly as a result of a shift in Gorbachev’s policies away from investment to consumption.” According to the authors, this policy increased nationalism between the Soviet republics that led to local protectionism and reduced economic activity between them.

## **2.2 Central Asia's transition to a market economy and the features of transformational recession in the 1990s**

The post-Soviet period began unexpectedly for the population and the elites of the Central Asian countries with the signing of the Belavezha Accords in December 8, 1991, which led to the dissolution of the USSR.

The destiny of Central Asia was decided at the state dacha in Belovezhskaya Pushcha by the presidents of Russia, Ukraine and Belarus, without any consultation with the leaders of other Soviet republics. According to Dietl (1997, p.113), “the Central Asian republics were practically «pushed out» from the Soviet Union” despite the fact that 93.7 percent of the population of Uzbekistan, 94.1 percent of Kazakhstan, 94.6 percent of Kyrgyzstan, 96.2 percent of Tajikistan and 79.9 percent of Turkmenistan had voted for the preservation of the Soviet Union in the referendum of 1991.

The partly compelled proclamation of independence towards the end of 1991 required the Central Asian ruling elites to conduct a number of measures to maintain the viability of the national economies and the social systems in order to determine their position in the world community and in the international division of labor. The collapse of the Soviet Union put before the independent Central Asian countries completely new challenges associated with the abolition of the Communist party and the replacement of the communist ideology with the national one.

The new Central Asian independent states are faced three major economic shocks: dissolution of the Soviet Union, transition from central planning to a market economy, and hyperinflation. According to Pomfret (2006, p.5), “in 1992, prices increased very rapidly, by more than 50 percent per month in all five Central Asian countries”.

The transition to a market economy in the Central Asian states started with the introduction of new institutions and governance practices fixed in the Washington Consensus. This type of macroeconomic policy was recommended by IMF and the World Bank and provided the implementation of reforms aimed at the expansion of market forces and the reduction of the public sector.

However, the new institutions interacted badly with inherited traditions of public administration and the structural features of the post-Soviet centrally planned economy (Ratanova, 2003). The painful market transformation of the new independent states

was noted by a significant economic decline and increased poverty that equally affected all Central Asian states.

The gap of interrelated ties between Soviet republics (table 2.3) and in first place with Russia after the disintegration of the USSR caused a chain reaction of a dramatic decline of production in many enterprises that led to the economic collapse in all the republics of the former Soviet Union (Illarionov, 1995).

Table 2.3 Inter-republic trade of Central Asian republics in 1990 and 1995, percentage of total balances

Soviet Republics /independent states	Output (Export)			Input (Import)		
	1990	1995	$\Delta$ % 1995/90	1990	1995	$\Delta$ % 1995/90
Kazakhstan	89	55	-38.2	88	70	-20.5
Uzbekistan	89	39	-56.2	89	41	-53.9
Kyrgyzstan	97	66	-32.2	80	68	-15.0
Tagikistan	82	34	-58.5	89	59	-33.7
Turkmenistan	96	49	-49.0	89	55	-38.2

Source: Interstate Statistical Committee of the CIS States: Statistical Yearbook (Статистический ежегодник СНГ), 1998, p.68.

Table 2.3 illustrates that in 1995 in comparison with 1990 the share of inter-republic trade in total trade balances of Central Asian republics declined significantly: from 32.2 to 58.5 percent in inter-republic output (exportation) and from 15.0 to 53.9 percent in inter-republic input (importation).

As a result of the rupture of technical and cooperation ties within former Soviet republics, the countries of the Central Asian regions had to move away from the monopolized, highly centralized, military-oriented Soviet development “towards a favoring of consumer needs”.

Attempts to maintain economic links in the post-Soviet space by retaining the ruble as a common currency in 1992-93 exacerbated the problem of hyperinflation. The

collapse of the ruble zone in the end of 1993 and the introduction of national currencies in Central Asian independent states made interstate trade even more difficult (Ratanova, 2003). In Tajikistan that was torn by civil war the national currency was not introduced until May 1995 (Pomfret, 2006).

The replacing of artificial Soviet prices by world prices, led to the appearance of many unprofitable enterprises in a number of industries of Central Asian republics and to the cessation of activities in much of them. Nonetheless, some Central Asian post-Soviet states benefited from improved prices for cotton and minerals and lower prices for manufactured goods.

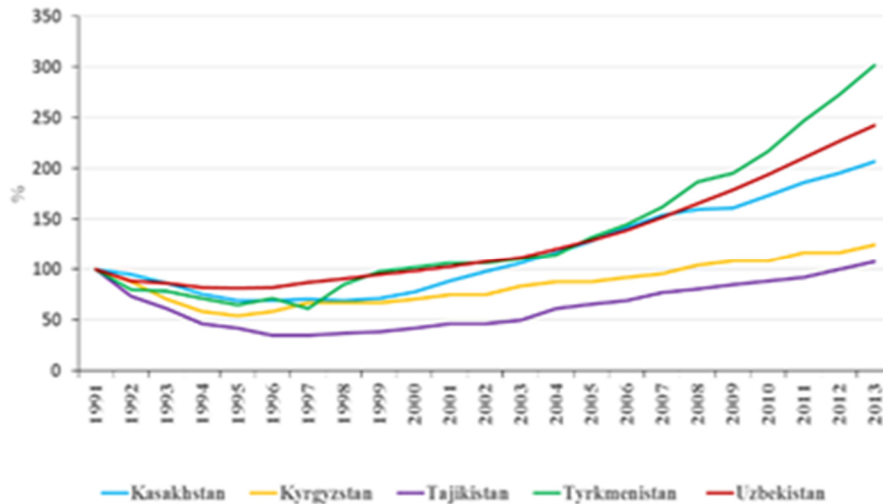
According to Pomfret, (2006, p.4-5), “Uzbekistan benefited from the shift to world prices because world cotton prices boomed during the first half of the 1990s”. At the same time, “Kazakhstan and Turkmenistan were unable to benefit from the transition to world prices immediately because the dominant exit route for their oil and gas exports was via the Russian pipeline network” (ibid).

After 1993 the Russian subsidies to the republics of Central Asia dramatically dropped. Gradual termination of Russian economic assistance increased economic recession in Central Asia that also caused the crisis of the Socialist economic model, the growth of political instability, and the emergence of critical problems in food and energy supply, environment, and infrastructure.

In the first half of the 1990s, a sharp drop in gross domestic product (GDP) was observed in all post-Soviet Central Asian republics (figure 2.1).



Figure 2.1 GDP of Central Asian states in constant 1990 prices in percentages, (1991=100).



Source: The author's calculations based on UN and World Bank data.

Figure 2.1 show that in the first half of the 1990s the decline of GDP in Uzbekistan amounted to 15-20 percent in comparison with 1991; GDP of Kazakhstan declined by 25-35 percent; in Kyrgyzstan and Turkmenistan the GDP fall was 30-45 percent. At the same time, in Tajikistan, there was a catastrophic decline of GDP by 50-65 percent compared with pre-crisis 1991 due to a consequence of the civil war of 1992-97.

According to the statements of the Tajik President Rakhmon, “the economic damage caused by civil war was estimated at 7 billion of dollars (...) by the end of the war, the drop in industrial production amounted to 72 percent” (Kuzmin, 1998, cited in Boboxonov 2001, p.81).

Most Central Asian countries managed to stop the decline of GDP only in the second half of the 1990s. Meanwhile, Tajikistan reached the GDP level of 1991 only at the end of 2012.

Economic decline in the first half of the 1990s led to a significant drop in per capita incomes in all Central Asian republics (table 2.4; figure 2.2). In this regard, it is important to note that in pre-crisis 1991 Central Asian states as a whole passed ahead of such

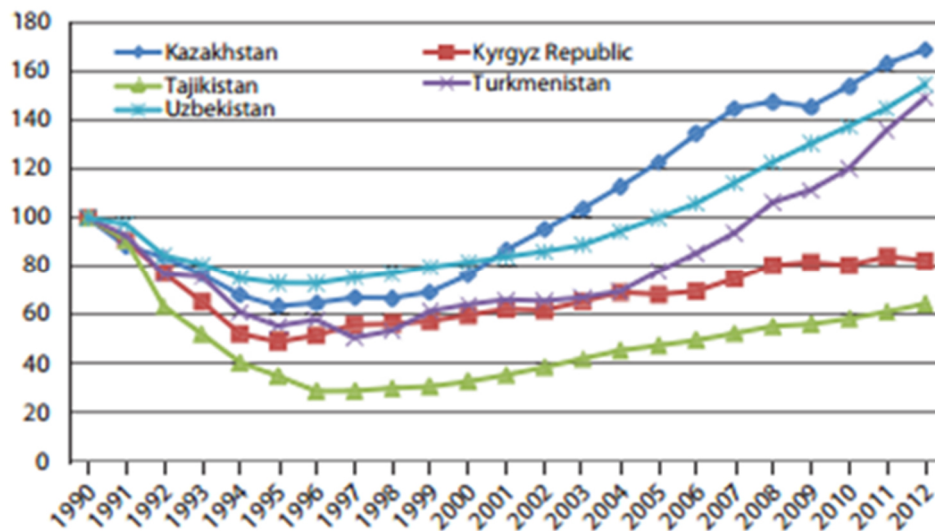
countries as India, China, Iran, Turkey and Pakistan for the levels of per capita incomes (Lounev, 1999, p.46).

Table 2.4 GDP (PPP) per capita in Central Asian states from 1990 to 1996 in constant 1993 prices, in rubles

Countries	1990	1992	1993	1994	1995	1996	Δ % 1996/90
Kazakhstan	3 845	3 196	2 827	2 465	2 290	2 330	-39.4
Kyrgyzstan	3 402	2 639	2 235	1 789	1 677	1 748	-48.6
Tajikistan	2 426	1 526	1 340	1 033	890	731	-69.9
Turkmenistan	3 104	2 549	2 147	1 704	1 529	1 510	-51.4
Uzbekistan	2 709	2 292	2 189	2 056	2 002	1 995	-26.4

Source: Вопросы экономики (Economic issues), 1997, n.10, p.151.

Figure 2.2 Per capita gross domestic product index (1990 =100)



Source: Asian Development Bank Institute, 2014, p.7.

Table 2.4 and figure 2.2 demonstrate that from 1990 to 1996 there was a gradual reduction of per capita incomes in all Central Asian republics. In 1996, in comparison

with 1990, the reduction of per capita incomes varied from 26.4 percent to 69.9 percent by countries. The strongest decline of per capita incomes among Central Asian occurred in Tajikistan due to the bloody civil war of 1992-97.

Furthermore, the transition from the Soviet model of economic development to a market economy, especially in its most active phase during 1991-1999, led to the dramatic changes in the sectoral structure of GDP in all Central Asian republics. It was expressed in the sharp reduction in the share of agriculture and the industrial sector (except Turkmenistan), and the increase of the share of the service sector due to the rapid development of the retail trade, the banking sector and market services in all of them (table 2.5).

Table 2.5. The sector-focused structure of the Central Asian republics, (add-value, percentage of GDP).

Central Asian republics	Industry			Agriculture			Services		
	1990	1999	2014	1990	1999	2014	1990	1999	2014
Kazakhstan	38	30	36	42	11	5	21	55	59
Kyrgyzstan	44	24	27	43	38	17	13	37	56
Tajikistan	42	30	22	37	27	27	22	34	51
Turkmenistan	34	44	48	48	26	15	19	28	37
Uzbekistan	38	23	34	44	34	19	18	42	48

Sources: World Bank data; The State Statistics Committee of the USSR. The national economy in 1990), (Госкомстат СССР. Народное хозяйство в 1990), 1991, p. 639-643.

As follows from table 2.5, at the end of the 1990s in Central Asia, the GDP structure observed an increase in the share of the services sector and a reduction in the share of the agriculture sector. The agriculture sector, which in the Soviet era was one of the largest sectors of the economy of the region at the end of the 1990s, had become less significant, although it provided a growing share of total employment in the region. The manufacturing industries varied across Central Asian countries but they played a secondary role in relation to the oil and gas industry and mining.

The economic decline of the 1990s was closely connected with the removal of high-tech production and industries with high value added from the production structure of the

Central Asian economies due to the breaking or weakening of mutual economic ties among the former Soviet republics.

As a whole the changes that occurred in the 1990s under the influence of transformational and geopolitical shocks caused a deep deindustrialization of Central Asian economies, returned them to decades ago on the level of socio-economic development, and threw them onto the periphery of the world economy (Ratanova, 2003).

A profound and a protracted economic and social crisis was also the result of the instantaneous opening of the economies of Central Asian states to external competition, the reduction of military expenditure and the conversion of military enterprises and the admission of mistakes in conducting the reforms.

In connection to this, it is important to note that the reduction of the Russian presence in the military and security spheres posed even more problems than the sharp decline in investments and assistance previously provided by Russia to Central Asia. For some new states of the former Soviet Union the problem of Soviet nuclear inheritance on their territory, which could no longer be controlled or dismantled by order from Moscow, became significant. It suffices to say that the nuclear arsenal that was at the time of the collapse of the Soviet Union in Kazakhstan exceeded the nuclear arsenals of the United Kingdom, France and China put together (Zhukov et al, 2001).

According to Laumulin (2009, p.357), “in exchange for consent from Kazakhstan that it would remove ballistic missiles from its territory, the George Bush administration put pressure on Chevron and encouraged it to come with investments in the Caspian oil and gas fields despite the economic disadvantages. Only later, the gaining of access to Caspian hydrocarbons become the core of American geopolitics in Eurasia.”

### 2.3 The socio-economic evolution of Central Asian countries in the post-transition<sup>45</sup> period. Structural change and the new economic development models

Following a deep economic decline and a painful systemic transformation during the 1990s, the five Central Asian republics have shown sustainable economic growth after 2000 (tables 2.6, 2.7; figures 2.1, 2.2).

Pomfret (2006, p.2) asserts that “in the first decade after the collapse of the Soviet Union, the five Central Asian countries economic performance differed, to some extent reflecting policy choices, but since 2000 the comparative situation has been dominated by the global boom in oil prices.”

Table 2.6. The main macroeconomic indicators of Central Asian countries

Nominal GDP (billion US\$)						
Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
Kazakhstan	80.6	203.5	231.9	212.3	203.1	216.6
Uzbekistan	21.4	51.2	57.2	62.6	68.2	76.5
Kyrgyzstan	3.2	6.6	7.3	7.4	7.4	7.9
Tajikistan	3.2	7.6	8.5	9.2	8.5	9.2
Turkmenistan	17.0	35.2	41.0	47.9	44.7	51.9

Real GDP Growth (annual change; percent)						
Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
Kazakhstan	8.4	5	6	4.3	2.0	3.1
Uzbekistan	6.8	8.2	8.0	8.1	6.2	6.5
Kyrgyzstan	4.3	-0.9	10.5	3.6	1.7	3.4
Tajikistan	8.0	7.5	7.4	6.7	3.0	4.1
Turkmenistan	13.9	11.1	10.2	10.3	9.0	9.2

<sup>45</sup> This definition refers to the second phase of the transition period of Central Asian states from the Soviet command economy to a market economy given the fact that the world community has recognized Kazakhstan, having the largest economy in the region, and Kyrgyzstan, as the countries with market economies.

Consumer Price Inflation (year average; percent)						
Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
Kazakhstan	9	5.1	5.8	6.7	5.2	5.5
Uzbekistan	15.3	12.1	11.2	8.4	9.5	9.8
Kyrgyzstan	9.2	2.8	6.6	7.5	10.7	8.6
Tajikistan	15.3	5.8	5.0	6.1	12.8	6.3
Turkmenistan	7.2	5.3	6.8	6.0	7.7	6.6

Source: The International Monetary Fund, 2015a.

As shown in table 2.6 and figure 2.1, in the 2000s, GDP growth rates in Central Asia differ widely. According to IMF data, the highest rates of GDP growth were observed in Turkmenistan, Uzbekistan and Kazakhstan. The lowest rate of GDP growth was in Kyrgyzstan owing to the consequence of two coups d'état in 2005 and 2010.

In the period under review, the inflation rate varied mainly due to fluctuations of world prices of commodities, and in some cases, due to pressure from consumer demand (Asian Development Bank Institute, 2014). In 2014, the weighted average inflation rate amounted to 6.9 percent throughout the region.

According to World Bank data, from 2000 to 2008, the weighted average GDP growth rates in the Central Asian region amounted to about 8.3 percent per year. It was the highest value of such an indicator for any group of the countries of the former Soviet Union in the post-transition period. Thus, in the pre-crisis period, the economies of Central Asian states grew much faster than the global economy that allowed incomes to increase and poverty to be substantially reduced (table 2.7, figure 2.2).

Table 2.7. GDP (PPP) per capita in Central Asian countries (at current prices) in 2000, 2008 and 2013.

Countries	2000		2008		2013	
	US\$	Russia=100	US\$	Russia=100	US\$	Russia=100
Kazakhstan	4 833	62.9	11 219	70.4	14 391	80.5
Kyrgyzstan	1 399	17.5	2 185	13.8	2 611	14.6
Tajikistan	884	11.5	1 761	11.1	2 354	13.2
Turkmenistan	1 910	24.9	5 892	37.2	9 510	53.5
Uzbekistan	1 419	18.5	2 590	16.4	3 762	21.0

Source: Dadabaeva et al, 2014, p. 18.

As illustrated in table 2.7 and figure 2.2, from the beginning of the 2000s, Kazakhstan has demonstrated a widening gap in terms of its socio-economic development compared with the other states of the region, due to the rapidly developing oil and gas industries and a more favorable financial situation connected with attracting a significant volume of foreign investment.

In 2013, per capita GDP in Kazakhstan increased almost three times in comparison with 2000, and amounted to US\$ 14391. Kazakhstan has become one of the leaders of rapid economic growth not only in Central Asia (Kazakhstan's GDP is more than the GDP of other Central Asian economies put together (table 2.6)), but also among the post-Soviet states (World Bank data).

The economies of Turkmenistan and Uzbekistan, which also rely on oil and the gas extraction industry, have shown stable economic growth in the period under review. In 2013, in comparison with 2000, per capita GDP increased in Turkmenistan five times and in Uzbekistan 2.7 times, and amounted to 9510 and 3762 dollars respectively.

The important drive underpinning Central Asia's economic growth in the pre-crisis period was a very significant increase in international prices for energy resources and metals that are available in Central Asian regions. High commodity prices attracted massive foreign direct investment (FDI) into oil and gas extraction industries and

transport infrastructure, which led to rapid export growth<sup>46</sup> in hydrocarbon-rich countries (Kazakhstan, Turkmenistan, and Uzbekistan). Even the countries that lack substantial hydrocarbon deposits (Kyrgyzstan and Tajikistan) benefited from this price increase through the remittances of their migrants from oil-rich neighboring countries (Russia and Kazakhstan). In other words, economic development in all countries of the CAR, in the pre-crisis period directly or indirectly was caused by the favorable conditions in the world markets (in some cases regional) of energy, capital and labor (Asian Development Bank Institute, 2014).

The high rates of economic growth in the region were interrupted by the global financial and economic crisis that started in 2008, the impact of which on the economies of the region is currently ongoing. In 2014, the decline of exports and remittances as well as ruble depreciation put pressure on the Central Asian currencies that led to the rise of inflation and the drop of economic activity. According to IMF projections, this trend will continue in 2015 mainly as a consequence of lower commodity prices and spillovers from Russia's slowdown, which has close linkages with the region through remittances, trade, and foreign direct investment (The International Monetary Fund, 2015a).

Nonetheless, economic growth has not led to the recovery of the Soviet level of industrial diversification (figure 2.5). The sectoral structure of GDP in the 2000s has continued to change in accordance with the trends of the 1990s, but less rapidly (table 2.5). In Kazakhstan, Turkmenistan and Uzbekistan the new production capacity became mainly concentrated in the traditional sectors of the economy and focused on extraction and exportation of natural resources. In Kyrgyzstan and Tajikistan, the share of industry sectors in the structure of GDP continued to decline.

Despite the further reduction of the share of the agriculture sector in the GDP structure of Central Asian economies, it still remains an important source of livelihood for the rural population and provides work for close to half of the population of the region (more than one quarter even in Kazakhstan). Over the past two decades of intensive changes in the GDP structures of Central Asian economies, the service sector has become

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<sup>46</sup> According to projections of the Ministry of Energy of the Republic of Kazakhstan, the volume of oil exportation in 2015 will be increased almost in 6 times compared with the level of 1998 (from 17.3 million tonnes in 1998 to 102 million tonnes in 2015).



the largest sector in all five republics, the share of which in 2014 already accounted for about half or more than half of GDP (except Turkmenistan).

Thus, the oil and gas industries, mining and non-tradable services have become the key drivers of economic growth and the largest sectors in all five Central Asian countries in the post-transitional period.

At the same time, it is necessary to stress that the structure of GDP in the Central Asian states is largely dependent on absolute and relative prices supported in the national economies that makes its interpretation more problematic. For example, in Kazakhstan and Kyrgyzstan, where the market economic system dominates, the structure of production precisely reflects the economic specialization of their economies. In Turkmenistan and Uzbekistan, the definition of the structure of production is complicated due to an existing specific system of internal prices (Asian Development Bank Institute, 2014).

Overall, the economic development of Central Asian countries in the post-transitional period was determined by individual combinations of factors connected with the degree of economic liberalization and the features of internal political processes. The informal regime of clan politics and high levels of corruption have become factors that determine the formation of the political and economic system in Central Asia (see chapter 1 of this paper). By different estimates, in some Central Asian countries the revenues from drug trafficking amount to about 40 percent of GDP<sup>47</sup>.

Moreover, economic development in Central Asian countries was significantly caused by the influence of third countries, China, Russia, EU, US, and to a lesser degree, Turkey, Iran, India and Pakistan in the past two decades. The external actors seek to strengthen their geopolitical position in the post-Soviet space, gain access to alternative sources of energy, and to expand the markets of their products in Central Asia.

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<sup>47</sup> <http://www.rosbalt.ru/exussr/2012/05/17/982025.html> До 40% ВВП ряда стран Средней Азии — это наркобизнес (Drug trafficking provides 40 percent of GDP in some countries of Central Asia). “Российская газета” (Rossiyskaya Gazeta), May 17, 2012.

The uneven distribution of natural resources between the countries of the region also significantly influenced the differences of their economic development levels (table 2.8).

Table 2.8 Reserves of natural resources in Central Asian countries

Central Asian states	Oil (million tonnes)	Gas (bcm)	Gold (tonnes)	Coal (billion tonnes)	Uranium (million tonnes)	Hydro-power (billion kWh / year)
Kazakhstan	4 093	6 800	18.9	35.8	1 690	40.2
Kyrgyzstan	5	6	24	-	20	142.5
Tajikistan	2	-	-	-	460	527
Turkmenistan	400	23 000	-	-	-	2
Uzbekistan	250	5 900	90	4	185.8	15
<b>Total in the CAR</b>	<b>4 557</b>	<b>35 706</b>	<b>132.9</b>	<b>39.8</b>	<b>2 335.8</b>	<b>709.7</b>
Position in the world	11	2	9	8	2	6-8

Source: Calculations based on statistical indicators of the Commonwealth of Independent States (CIS).

As follows from table 2.8, the Central Asian countries differ significantly in resource endowment and production capabilities.

Kazakhstan, Uzbekistan and Turkmenistan have significant reserves of hydrocarbons and metals, while Kyrgyzstan and Tajikistan do not have such volumes in strategic reserves, but they are rich in vital hydropower resources. Tajikistan and Kyrgyzstan occupy the headwaters of the two main rivers of Central Asia - Amu Darya and Syr Darya, and can regulate the river flow and irrigation of agricultural lands in the entire region.

According to expert estimates, about 4 percent of the world's proven oil reserves and more than 4 percent of the world's proven gas reserves are concentrated in Central Asia and in the shelf of the Caspian Sea (BP Statistical Review of World Energy, 2010; cited in Akkazieva 2011, p.276).

The combination of the factors considered above has led to a high diversity in the performance of the countries in terms of their economic development levels and models, despite their similar histories and cultures. In the post-transitional period in Central Asia, three different economic models of development can be identified.

### 2.3.1 A “petrostate” model of economic development (Kazakhstan, Turkmenistan)

This model of development is based on the extraction and exportation of hydrocarbons (table 2.9). The well-being of these states strongly depends on revenues from hydrocarbon exports, on foreign investment from third countries and multinational companies, and on a conjuncture in the world markets.

Table 2.9. Crude oil and natural gas production and export (million barrels per day) Kazakhstan and Turkmenistan

Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
<b>Crude oil production/export</b>						
Kazakhstan	1.26/1.08	1.65/1.42	1.70/1.47	1.68/1.44	1.68/1.44	1.68/1.44
Turkmenistan	0.19/0.04	0.23/0.04	0.23/0.04	0.24/0.05	0.25/0.05	0.27/0.05
<b>Natural gas production/export</b>						
Turkmenistan	.../0.67	1.08/0.69	1.19/0.67	1.30/0.72	1.42/0.83	1.56/0.95

Source: The International Monetary Fund, 2015a. Note: ...= date not available.

As illustrated in table 2.9, crude oil extraction in Kazakhstan increased 33 percent in 2014 in comparison with the average level for the 2000-11 period and amounted to 1.68 million barrels per day, of which 1.44 million barrels per day, or more than 85 percent of the total extraction per day, was exported.

As for Turkmenistan, in 2014 the production of crude oil and natural gas amounted to 0.24 and 1.30 million barrels per day respectively, of which 0.05 million barrels of crude oil, or 21 percent of the total production per day and 0.72 million barrels of natural gas, or 55 percent of the total production per day, was exported.

The rapid growth of hydrocarbon exports and a substantial inflow of foreign exchange in the post-transitional period contributed to the formation of a relatively stable current account surplus in both states, except Turkmenistan over the last two years (tables 2.17 and 2.18) and allowed them to enlarge international reserves and to create special national funds.

According to the National Bank of Kazakhstan on September 1, 2015, the volume of International reserves amounted to US\$ 29085 million and the volume of assets of the National Oil Fund amounted to US\$ 68776 million. As of December 2000, the International reserves of Kazakhstan amounted to US\$ 2096 million and the volume of assets of the National Oil Fund were equal to zero.<sup>48</sup>

In December 2014, official international reserves of Turkmenistan amounted to US\$ 27040 million<sup>49</sup>. Data on the volume of the special national fund of Turkmenistan are not available (The Central Intelligence Agency).

However, both these economies are susceptible to the symptoms of “Dutch disease”, which can increase their vulnerability in cases of worsening terms of trade. The export flows of these states are predominantly directed towards extra-regional markets and to a far lesser degree dependent on intra-regional markets than the other countries of the CAR.

In the second half of the 1990s, Kazakhstan began to hold serious macroeconomic reforms and made integration into the global economy the purpose of its economic development. Kazakhstan has the most liberal economic system in comparison with other countries of the CAR, and the international community recognized it as the state with a market economy.

Meanwhile, Kazakhstan is the only country in the post-Soviet space, which transferred to the management or ownership of foreign corporations of about 60 of its important industrial enterprises operating in the field of power engineering, extraction

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<sup>48</sup> <http://www.nationalbank.kz/?docid=180&switch=english> Last access September 21, 2015.

<sup>49</sup> <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> The World Factbook: Reserves of foreign exchange and gold. Last access September 21, 2015.

and refining oil and non-ferrous metals. “The level of oligarchization of the national economy is very high: 10 percent of the largest financial and industrial groups control more than 70 percent of industrial production” (Blatova, 2010, p.104).

As for Turkmenistan, their economic development largely depends on revenues from exports of natural gas on the foreign markets (in its reserves, Turkmenistan ranked second in the world) (table 2.8).

Turkmenistan has a totally state economy, close to the Soviet economy, where all kinds of resources and factors of production are in state ownership and at the disposal of the public authorities. After gaining independence, privatization was not implemented, and, except for the low influx of foreign investment (foreign investors are allowed in only for the complex and expensive extraction of oil and gas deposits) the private sector is represented only by individual labor (The Public Finance Monitoring Center, 2010).

Turkmenistan is one of the few “closed” countries in the world, where it is extremely difficult to estimate the socio-economic situation and standard of living by means of well-known economic indicators accepted by international statistics. The absence or low prices for most public utilities provided to the population makes this assessment more difficult. Furthermore, there is a problem of access to the main macroeconomic indicators, because a lot of them are not available or are provided irregularly.

### **2.3.2 Economy of remittances (Tajikistan, Kyrgyzstan)**

Tajikistan and Kyrgyzstan are referred to as the group of countries with low natural resource development and they are hydrocarbon importers. A rapid population growth in these countries aggravated the problem of unemployment, and caused the immense migration of a working-age population in them. High dependence on remittance flows from migrants is the main feature of the economies of the second type.

Both countries have a stable current account deficit (table 2.17 and table 2.18), which is regulated by means of external loans and export of labor forces. Export revenues in the countries are also supported by the favorable conjuncture on the markets of non-oil export commodities (gold, copper, uranium and aluminum), reserves of which these

countries possess. Moreover, until recently, the re-exportation of Chinese products was the main source of Kyrgyzstan's incomes.

In contrast to the first group of the countries where exports are primarily directed towards extra-regional markets, Tajik and Kyrgyz economies are also focused on intra-regional markets. At the same time, foreign direct investment plays a more significant role in the economic development of Tajikistan, whereas intra-regional export revenues are more important for the Kyrgyz economy.

For example, from the beginning of the 2000s, Kyrgyzstan's apparel sector has grown from scratch to one of the most important sectors of the national economy in terms of intra-regional export revenues and employment. According to data of the National Statistical Committee of the Kyrgyz Republic, garment exports increased more than 10 times from US\$ 15 million in 2003 to US\$ 156 million in 2012. Approximately 80 percent of Kyrgyzstan garment production is exported to Russia and most of the rest to Kazakhstan. High import duties imposed by Russia and Kazakhstan on imports of China's garments also provide Kyrgyz enterprises with a considerable price advantage (Asian Development Bank Institute, 2014).

In both countries, economic development is determined by domestic customer demand, which largely depends on the remittances from migrants working in Russia<sup>50</sup> and Kazakhstan. Remittance flows from abroad exceed export revenues and are important item incomes of the budgets of Tajikistan and Kyrgyzstan.

According to World Bank migration and remittance data, in 2014, remittances from abroad amounted to US\$ 3.3 billion in Tajikistan and US\$ 2.1 billion in Kyrgyzstan. For share of remittances in GDP (39.0 percent in Tajikistan and 29.1 percent in Kyrgyzstan), these countries occupied, respectively, first and second place in the world (table 2.10).

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<sup>50</sup> According to the International Fund for Agricultural Development (IFAD) (2015, p.13), the Russian Federation is a primary host to millions of migrants from Central Asia, and took first place in the ranking of countries by remittance outflows that amounted to US\$ 20.6 billion in 2014. It was followed by the United Kingdom (US\$ 17.1 billion), Germany (US\$ 14 billion), France (US\$ 10.5 billion), Italy (US\$ 10.4 billion) and Spain (US\$ 9.6 billion).

Table 2.10 Remittance flows into Central Asian states and labor migrant outflows

Countries	Cumulative remittances 2002–2012 (US\$ million)	Remittances from Russia (US\$ million) in 2014	Share of Russian flows (%)	Remittances		Migrants ('000) in Russia	
				(%) of annual GDP	Place in the world	IFAD	FMS of the Russia
Kazakhstan	1 707	171	94.2	..	..	..	553
Kyrgyzstan	9 005	2 104	93.7	29.1	2	573	544
Tajikistan	16 673	3 314	86.4	39.0	1	452	1061
Turkmenistan	..	35*	100	..	..	..	26
Uzbekistan	..	5 588	100	9.8	7	1 111	2333

Sources: International Fund for Agricultural Development, June 2015, p.13, p.31, p.24; [http://slon.ru/russia/skolko\\_gastarbajterov\\_v\\_rossii-870263.shtml](http://slon.ru/russia/skolko_gastarbajterov_v_rossii-870263.shtml) Сколько гастарбайтеров в России (How many migrant workers in Russia?) Bessudnov A. 27.12.2012.

Notes: \* The Central Bank of Russia data for 2013; ..= not available.

As follows from table 2.10, Tajikistan and Kyrgyzstan received 86 and 94 percent respectively of their remittances from Russia. These ties among other things are pushing Kyrgyzstan (member from 12.08.2015) and Tajikistan towards joining the Eurasian Economic Union (EEU) that offers freer movement of labor and better treatment of migrants within the Union.

Labor migration has significant consequences on the socio-economic development of this group of states. On the one hand, in the short-term period, remittance flows have become a mechanism of survival for poor families in both countries and on a national level, they have allowed non energy-rich countries to maintain imports at a level exceeding their export earnings. On the other hand, preservation of the current “remittance model” of economic development can have a negative impact on the long-term outlook of these countries and exceed the short-term benefits of labor migration.

The negative effects of labor migration are connected with a nearly total dependence on the Russian labor market and with the losses of human capital by these states, as the majority of migrants do not work abroad in their own field. Moreover, the

male population, which is predominantly considered the main political force in relations between the citizens and the state in Central Asia, are subjected to economic migration. All these factors hinder the economic development of both states and may lead them to a deadlock in a long-term outlook<sup>51</sup>.

According to World Bank forecasts<sup>52</sup>, the weakening economic growth in Russia, the ruble depreciation, and the sanctions imposed on Russia by Western countries as a result of the conflict in Ukraine, could lead to the slowing down of the growth of remittances to Central Asia in 2015.

According to the National Bank of Tajikistan (NBT), net inflow of remittances from Russia to Tajikistan in the first quarter of 2015 was US\$ 289 million, which is 42.4 percent less than in the same period of 2014. This is the most significant remittance reduction to Tajikistan in the history of statistics<sup>53</sup>.

The decline of domestic demand due to the reduction of remittances, and export revenues owing to the decline of prices for non-oil export commodities (gold, copper and aluminum) in the world markets can provoke a deep economic and political crisis in both Central Asian states in the near future.

Tajikistan was considered in Soviet times the poorest republic, and it is still feeling the effects of the civil war of 1992-97. Since independence, the country has not been able to find resources to conduct fundamental economic reforms. Remittance flows in Tajikistan are mostly directed to consumption rather than private investment in small and medium enterprises that can contribute to the creation of new workplaces and diversification of the economy (Commonwealth of Independent States, 2014).

As for Kyrgyzstan, which has consistently implemented the recommendations of the International Monetary Fund and World Bank after two “revolutions” of 2005 and

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<sup>51</sup> <http://rus.ozodi.org/content/article/25329533.html> Таджикистан должен диверсифицировать экономику (Tajikistan has to diversify its economy). S.Olimova. Radio Ozodi. April 14, 2014.

<sup>52</sup> <http://www.worldbank.org/en/news/press-release/2014/10/06/remittances-developing-countries-five-percent-conflict-related-migration-all-time-high-wb-report> Remittances to Developing Countries to Grow by 5 Percent This Year, While Conflict-Related Forced Migration is at All-Time High, World Bank Report, October 6, 2014.

<sup>53</sup> <http://www.interfax.ru/business/447944> Объем денежных переводов таджикских мигрантов из РФ упал на 42% (The remittances of Tajik migrants from Russia dropped by 42 percent), Interfax/Economy, June 17, 2015.



2010, it has not reached a stable economic growth. The annual GDP growth rates remain the lowest in the CAR (table 2.6).

### **2.3.2 A mixed model of economic development (Uzbekistan)**

A “mixed” model of economic development has a borderline status in comparison with the two economic models examined above. This model combines the elements of the Soviet planned economy, the “petrostate” economy, and the economy of remittances.

On the one hand, Uzbekistan has its own energy resources (table 2.8), the export of which allowed it to keep current account surplus in the post-transitional period (table 2.17 and table 2.18). However, Uzbekistan can be considered a “petrostate” economy only partially. According to the definition of IMF, the country refers to the category of fuel exporters if the export of hydrocarbons amounts to more than 50 percent of the total national exports<sup>54</sup>. In 2014, the share of hydrocarbon exports accounted for 27 percent of total exports of Uzbekistan, which was below the predetermined IMF threshold value specified by IMF<sup>55</sup>.

Uzbekistan has a relatively diversified industry oriented towards the large domestic market and to the markets of neighboring countries. In 2014, the share of exports of manufactured goods was the highest in the CAR and amounted to 32 percent of total Uzbekistan exports (UNCTADstat data, 2014).

Furthermore, the economic growth of Uzbekistan is largely sustained by domestic demand, which depends on investment and remittances from labor migration. In 2014, remittance inflows amounted to US\$ 5.6 billion, or 9.8 percent of the annual GDP of the country. According to IFAD data (2015, p.31), Uzbekistan is totally dependent on Russia for remittances (table 2.10).

The “mixed” model of economic development of Uzbekistan can also be referred to as a weakly modified Soviet model of planned economy dependent on government

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<sup>54</sup> <http://datahelp.imf.org/knowledgebase/articles/528074-what-determines-a-country-to-be-included-in-the-e> The “Export Earnings: Fuel” category (formerly named Oil Exporting Countries) includes countries that have mineral fuels, lubricants, and related materials comprising over 50 percent of their exports, IMF/Methodology.

<sup>55</sup> <http://unctadstat.unctad.org/CountryProfile/860/en860GeneralProfile.html> General Profile: Uzbekistan. UNCTADstat data. Last access: September 20, 2015.

subsidies supporting industrial production and the social sector. In the literature, this model is often described as an “Uzbek model” of state capitalism (Ratanova, 1999, p.94).

On the one hand, the state tightly controls all economic activity, which together with elements of central planning and strategy of import replacement, prevents economic liberalization, structural reforms, and significantly limits the development of private enterprises. On the other, the state pays particular attention to the development of new industries and the creation of joint ventures with the involvement of Western technologies and targets more than 50 percent of their production to exports.

For example, in Uzbekistan the serial production of new types of passenger and transport aircrafts in cooperation with Russian enterprises was upgraded and launched. The production of “Mercedes” tractors in Khorezm, and the assemblage of “Avia” and “Tatra” trucks in Tashkent were started. Moreover, in the mid-1990s in Asaca, the automobile plant “UzDaewooAuto” was launched with the assistance of the foreign corporations “Daewoo” and “General Motors”.

Despite the fact that the “mixed” model of economic development is more stable in comparison with the two models examined before, it has serious imbalances too. In 2014, the exports of commodities with raw material orientation (energy resources, metals and cotton) accounted for more than 50 percent of national exports and increased the dependency of the country’s solvency on changes in export prices (figure 2.4).

Thus, all three economic Central Asian models are characterized by a high level (in greater or lesser extent) of involvement of the state in the economy, because of political authoritarianism inherent to countries of the region.

Moreover, corruption, the inequitable distribution of national wealth for the benefit of individual clans and ruling elites, and a very low standard of living of most of the population, are the common features of Central Asian models of economic development. The percentages of the population living under the poverty line are very high in the four southern countries, varying from a quarter to a half, in particular in the two poorest of them, Kyrgyzstan and Tajikistan.

Three Central Asian models of economic development are unified also by one thing in common - they are all mono-economies, i.e. critically dependent on currency earnings from exports of one or two commodities and/or labor forces of external markets.

Laurelle et al (2013, p.117) assert “despite their difference, the Central Asian economies are stamped by their overreliance on exports in raw materials (...) They can therefore be put in the category of economies of rent”.

Regional cooperation with neighboring countries of the CAR is very limited due to different economic policies conducted by the leaders of these states, and the uniformity of mono-raw material Central Asian economies.

## **2.4 The role of external factors in the economic development of Central Asian countries in the post-Soviet period**

After the collapse of the USSR, the dependence of socio-economic development of the Central Asian states on external factors has become critically high.

Disintegration of the common economic space of the Soviet Union led to the access of the Central Asian republics into world markets. “It can be asserted without exaggeration that the Central Asian economies operate in their present form only owing to the inclusion in an international division of labor. If cut off from international trade, they would immediately cease to exist” (Zhukov et al, 2001, p.112).

The emphasis on exports of natural resources has helped to open these economies and many channels now link them to the global economy, including trade in goods and services, labor migration and migrants’ remittances, foreign direct investment and official development assistance.

### **2.4.1 Analysis of economic openness to foreign trade of Central Asian countries**

In the post-Soviet period, the Central Asian post-Soviet economies turned into open economies, which are characterized by high share of exports and imports and/or their average value in the structure of the national GDP (export quota, import quota and foreign trade quota respectively)<sup>56</sup>. The indicator value exceeding 30 percent shows a high degree of openness of the national economy (table 2.11).

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<sup>56</sup> These key indicators of openness reflect broadly the relative importance of international trade to an economy. In terms of interpretation, small economies typically depend more on international trade than

Table 2.11. The dynamics of export-import quotas and foreign trade quotas of Central Asian economies in 1995, 2000 and 2014\*.

Central Asian republics	1995	2000	2014
<b>Kazakhstan</b>			
a. Export, % of GDP	39.0	50.1	41.3
b. Import, % of GDP	43.6	27.7	26.3
c. (a+b) /2, % of GDP	41.3	38.9	33.8
<b>Kyrgyzstan</b>			
a. Export, % of GDP	29.5	38.1	35.0
b. Import, % of GDP	42.4	41.5	96.4
c. (a+b) /2, % of GDP	35.9	39.5	65.7
<b>Tajikistan**</b>			
a. Export, % of GDP	115.4	77.6	16.9
b. Import, % of GDP	124.8	65.5	56.8
c. (a+b) /2, % of GDP	119.9	71.5	36.9
<b>Turkmenistan***</b>			
a. Export, % of GDP	48.2 (187.0)	57.1 (143-171)	35.8 (161.1)
b. Import, % of GDP	35.0 (135.8)	39.2 (98-117)	21.1 (94.9)
c. (a+b) /2, % of GDP	41.6 (161.4)	48.1 (120-144)	28.4 (128.0)
<b>Uzbekistan***</b>			
1. Export, % of GDP	38.0 (41.0)	24.1 (78.7)	21.4 (30.4)
2. Import, % of GDP	38.4 (41.4)	21.8 (71.0)	22.5 (31.9)
3. (a+b) /2, % of GDP	38.2 (41.2)	22.9 (74.8)	26.3 (31.2)

Note: \* Data for different years are not strictly comparable with each other due to changes in the methodology of calculation; \*\* In Tajikistan, the foreign trade turnover in value may be more than the GDP due to the specifics of national statistics; \*\*\* Indicators in parentheses are given at the exchange rate of the “black market.”

Sources: Zhukov et al, 2001, p.110 (data for 1995 e 2000); Authors’ calculations for 2014 based on UNCTADstat data and expert estimates about currency exchange rates on the “black markets” of Turkmenistan and Uzbekistan (<http://www.asiaterra.info/economy/uzbekskij-sum-vpered-k-novym-rubezham> Узбекский сум вперед к новым рубежам? (Uzbek sum: forward to new horizons?) A. Volosevich. Asiaterra. February 14, 2015; <https://iwpr.net/ru/global-voices/chernyy-rynok-valuty-osnova-ekonomiki> Черный рынок валюты – основа экономики Туркменистана (The black market of currency is the backbone of the Turkmenistan economy). IWPR Central Asia. February 21, 2005).

large economies. These ratios may be biased in favor of low-income countries, due to the undervaluation of their currencies (UNSTAD; cited in International Chamber of Commerce, 2013, p.9).

As follows from table 2.11, in the period under review, the Central Asian countries have had a high degree of openness in their economies (indicators of openness in almost all of them amounted to over 30 percent of GDP).

It should be noted that in the conditions of unfavorable conjuncture on the world markets that often lead to a reduction of revenues from commodity export, the Central Asian countries may purposely reduce the value of imports with respect to the value of exports in order to achieve macroeconomic stabilization. Revenues from exports of commodities are the only channel for generating freely convertible currency in the open mono-raw material economies and they are essential for the national government to stabilize the exchange rate and curb inflation. In connection with this, the export quota characterizing the openness of the national economy and the depth of participation in the international division of labor might be the most appropriate indicator for some Central Asian countries rather than the import quota.

In 2014, Kazakhstan became the leader among the Central Asian states for the degree of openness of the national economy (export quota amounted to 41.3 percent of GDP). The high export quota of Kazakhstan is largely determined by the volume of export demand, which is formed under the influence of transnational corporations operating in this country.

At the same time, Uzbekistan, which partly retained the elements of the Soviet economic system, tends to regulate net exports. In other words, through a specific system of internal prices Uzbekistan balances exports and imports so that their values correspond approximately to each other (Zhukov et al, 2001).

Furthermore, in table 2.11 the economic indicators characterizing a degree of openness of the economy of Uzbekistan and Turkmenistan are calculated on undervalued official exchange rates. The indicator value in parentheses of the table above, which were obtained by using the exchange rate on the “black market,” demonstrates the higher degree of openness of both economies in comparison with indicators relying on the official exchange rate.

Uzbekistan has simultaneously several parallel existing national currency exchange rates. This situation has been going on for more than twenty years, except for a short period in the mid-2000s, where there was almost no difference between the currency

exchange rates of the Central Bank of Uzbekistan and of the “black market”. The global economic crisis led to a reduction of the supply of foreign currency in Uzbekistan and the significant difference between official and “bazaar” exchange rates was formed again. For example, at the beginning of 2015, the difference between official and “bazaar” exchange rates exceeded 40.5 - 42.4 percent<sup>57</sup>.

Apart from the official exchange rate of the Central Bank and the “bazaar” course of the “black market”, in Uzbekistan there is also an exchange rate for importers of goods and services (where the dollar is more expensive than on the “black market”). According to expert assessments, this provisional market exchange rate might be perhaps the closest that could be formed in the country based on supply and demand (Anderson et al, 2012).

In Turkmenistan, the free conversion of currency has been forbidden since 1998. The increased popularity of black market currency among the population of the republic has become the consequence of this policy. According to available data, the dollar/manat rate on the “black market” of Turkmenistan was 4 to 5 times higher than the official rate, and fluctuated within the range of 22.000 - 25.000 manats to the dollar.<sup>58</sup>

In contrast to the energy-exporting countries with a high degree of openness of their economies, in 2014 Tajikistan had the lowest export quota in the region (16.9 percent of GDP). According to World Bank data, from 2003 to 2013 the average annual decline of export volume in Tajikistan accounted for 3.9 percent from the base period of 2000. The low export quota in Tajikistan in the first place, connected with the decrease of exports of cotton (one of the major export commodities of the country) is due to the reduction of cotton prices in world markets in recent years<sup>59</sup>.

Meanwhile, in 2014 Tajikistan and Kyrgyzstan have had the highest import quota in the region (96.4 e 56.8 percent respectively). A very high value of this indicator shows the significant reduction of domestic production in both countries due to its low

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<sup>57</sup> <http://www.asiaterra.info/economy/uzbekskij-sum-vpered-k-novym-rubezham> Узбекский сум вперед к новым рубежам? (Uzbek sum: forward to new horizons?) A. Volosevich. Asiaterra. February 14, 2015.

<sup>58</sup> <https://iwpr.net/ru/global-voices/chernyy-rynok-valyuty-osnova-ekonomiki> Черный рынок валюты – основа экономики Туркменистана (The black market of currency is the backbone of the Turkmenistan economy). IWPR Central Asia. February 21, 2005.

<sup>59</sup> <http://nm.tj/economy/27592-tadzhikistan-v-2014-godu-prodolzhil-sokraschenie-eksporta-hlopka.html> Таджикистан в 2014 году продолжил сокращение экспорта хлопка (Tajikistan in 2014 has continued to reduce the export of cotton). P. Chorshanbiyev. Media group “Asia-Plus”. January 20, 2015.

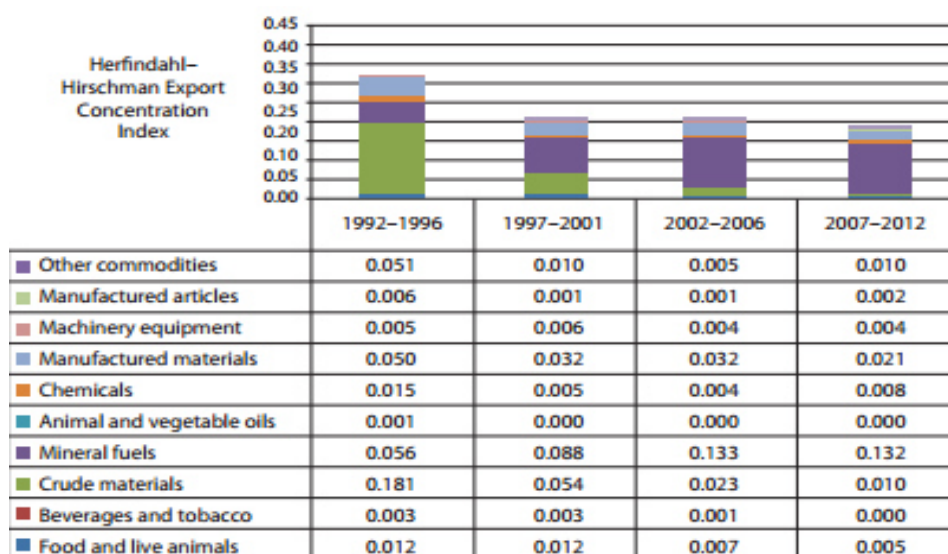
competitiveness, and the emergence of an unjustified dependence of certain industries and the economy as a whole on imports.

### 2.4.2 Sectoral specialization and geographical orientation of exports of the Central Asian states

Being critically dependent on foreign trade, all the Central Asian countries, without exception, are characterized by an extremely vulnerable sectoral (figures 2.3, 2.4) and geographical structure of exports (table 2.12).

Based on a Herfindahl-Hirschman export concentration index,<sup>60</sup> figure 2.3 clearly suggests that export revenues of the CAR are concentrated on exports of mineral fuels, and that this concentration has grown in the past two decades considerably.

Figure 2.3. Concentration on exports of mineral fuels of Central Asian regions



Note: Based on the Herfindahl-Hirschman index, with values closer to 1 signifying higher concentration in the product category.

Source: Asian Development Bank Institute, 2014, p.31.

<sup>60</sup> The Herfindahl-Hirschman export concentration index examines how concentrated the exports of Central Asia are. It is calculated as:

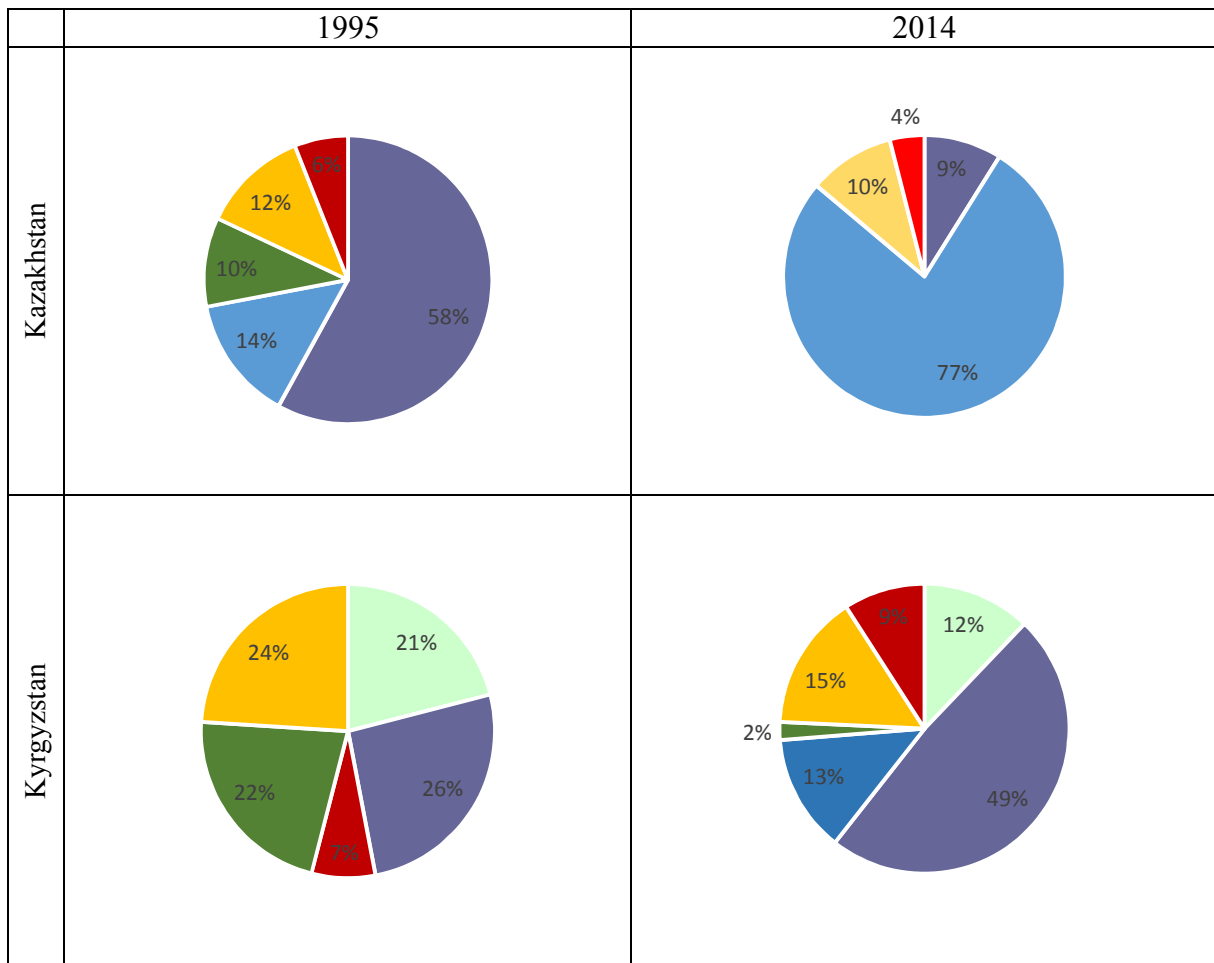
$$HH^j_t = \sqrt{\sum_i \left( \frac{\text{exports}_i^j}{\text{total exports}_t^j} \right)^2}$$

where:  $j$  denotes country;  $i$  product; and  $t$  time period, using UN Comtrade statistics data.

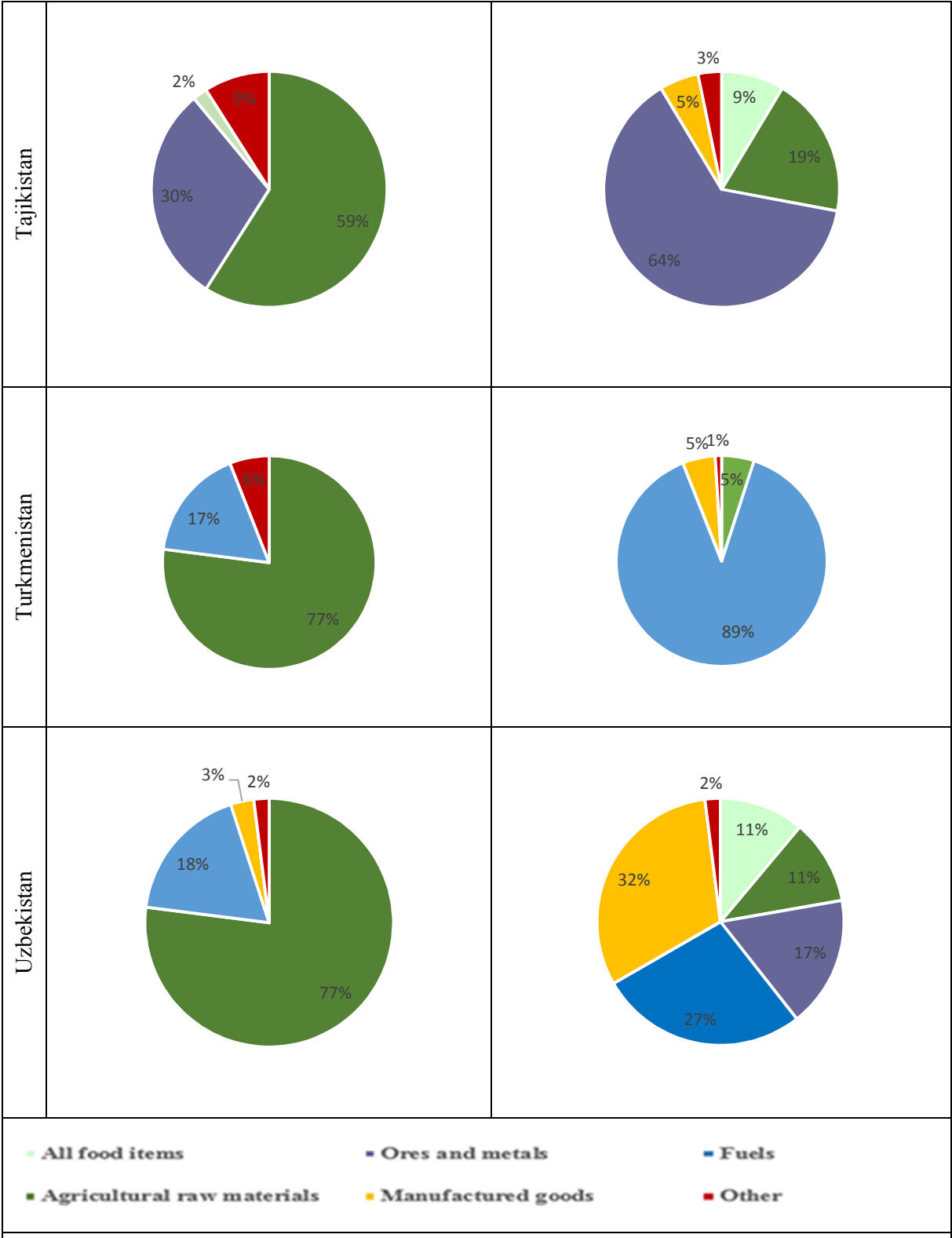
The data presented above show that exports of mineral fuels have become dominant among the exports of other categories of products in Central Asia. At the same time, exports of manufactured materials and crude materials that were essential at the beginning of the '90s currently decreased significantly. Moreover, exports of some categories of products practically disappeared. The reduction of the export concentration index of manufactured articles, manufactured materials, and machinery equipment in the period under review demonstrates the deindustrialization of Central Asian exports in the past two decades.

Figure 2.4 shows the enlarged structure of exports in Central Asian states in 1995 and in 2014.

Figure 2.4. Export structure by product group of the Central Asian countries in 1995 and in 2014 in percentages.







Sources: UNCTADstat data for 2014 (<http://unctadstat.unctad.org/CountryProfile/home/Indexen.html>); United Nations (2015), International Trade Statistics Yearbook Volume I - Trade by Country, p.222, p. 212; The Observatory of Economic Complexity for 1995 (<http://atlas.media.mit.edu/en/>).

Figure 2.4 illustrates that the export structure of Central Asian states in 2014 compared with 1995 has changed considerably. Currently, exports of crude oil, natural gas, oil products, ferrous and non-ferrous metals, cotton, and wheat provide most of the total exports of the region.

As the figure 2.4 shows, in 2014, exports of fuel and metals accounted for 88 percent of national exports of Kazakhstan. Export of metals (first of all, gold) and mineral products provided 61 percent of total exports of Kyrgyzstan. Only the export of hydrocarbons amounted to 89 percent of total exports of Turkmenistan. Metals (primarily, aluminum) and cotton accounted for 77 percent of the export basket of Tajikistan. Fuel, metals and cotton accounted for 55 percent of exports of Uzbekistan. Thus, the dependence of the Central Asian economies on exports of one or two commodities is very high, and in most countries tends to exceed 50 percent.

Moreover, in 2014 compared with 1995 a trend increasing the critical dependence on exports of a limited number of raw commodities was observed in all Central Asian states, with a lesser degree in Kyrgyzstan and Uzbekistan, which in 2014 had the most diversified structure of exports among Central Asian states. The high share of exports of manufactured goods and exports of services in the total of exports in both states can be explained by the increase of exports of automobile and transport services from Uzbekistan, and apparel and tourism services from Kyrgyzstan (Asian Development Bank Institute, 2014).

As the presented data demonstrates, in all Central Asian republics in 2014, in comparison with 1995, there was a significant reduction in the share of cotton in total exports. For example, the share of cotton in the total exports of Turkmenistan fell from 77 percent in 1995 to 5 percent in 2014. In Tajikistan, exports of “white gold” fell from 59 percent to 18 percent. In Uzbekistan, from 77 percent in 1995 to 11 percent in 2014. According to data of the Ministry of Economy of the Republic of Uzbekistan, the export of cotton in volume decreased by 8 times in 2013 in comparison with 1990.

The main reasons that led to the reduction of the export of cotton in Central Asian republics was the decrease of the cost of cotton on world markets, the problem of water supply in the region, and the removal of part of its agricultural land for forage and cereal crops. At the same time, in Turkmenistan, which has an internationally recognized status

of neutrality, the gradual release of agricultural land from cotton to expand wheat sowing was carried out in order to ensure food self-sufficiency of the country (Karadzhaev, 2014).

Furthermore, in the period analyzed, in all countries there was a relative reduction of the share of export items such as machinery, equipment and vehicles, and chemical products in total exports.

Thus, the changes that occurred in the export structure of Central Asian states during the last two decades reinforced the role of Central Asian regions mainly as suppliers of fuel, metals and agricultural raw materials (which have a strong tendency to decline) on the world markets.

A high dependence on a limited number of foreign markets is imposed on the raw material orientation of export of the Central Asian states (table 2.12).

Table 2.12. Geographical concentration of exports of the Central Asian states by major trading partners in percentages.

Trade partners	1995	2000	2010	2014
<b>Kazakhstan</b>				
Leading trade partner	45.1 Russia	17.4 Russia	18.5 China	20.5 Italia
Three leading trade partners	60.5	38.1 (Berm. Isl. - 11.1; Br.Vir. Isl. - 9.6)	33.7 (France -7.9; Italy -7.3)	44.2 (China - 12.5; Netherlands - 11.2)
Five leading trade partners	67.4	51.8 (China - 7.3; Germany- 6.5)	45.4 (Netherlands-6.2; Russia - 5.5)	56.4 (Russia - 6.6; France - 5.9)
<b>Kyrgyzstan</b>				
Leading trade partner	25.6 Russia	34.6 Germany	22.57 Switzerland	24.3 Kazakhstan
Three leading trade partners	59.5	60.5 (Russia - 16.9; China-8.9)	59.5 (Russia-19.3; UAE-17.6)	55.3 (Uzbekistan -23.8; Russia- 7.2)
Five leading trade partners	82.5	73.5 (Switzerland -8.0; Kazakhstan - 4.9)	81.4 (France -14.5; Kazakhstan - 7.5)	66 (UAE-6.2; Afganistan-4.5)
<b>Tajikistan</b>				
Leading trade partner	34.1 N.-lands	57.5 Russia	26.4 Turkey	25.9 Turkey
Three leading trade partners	64.4	64.52 (Turkey- 3.9; Italy - 3.1)	55.5 (Russia -19.7; Korea - 9.4)	44.2 (Kasakhstan-9.5; Afganistan- 8.8)
Five leading trade partners	73.8	69.5 (China-2.5; Korea- 2.4)	66.0 (Norway- 5.4; China-5.1)	60.7 (Iran- 8.3; China - 8.2)

<b>Turkmenistan</b>				
Leading trade partner	24.5 Ukraine	53.3 Ukraine	38.8 China	53.9 China
Three leading trade partners	50.8	79.5 (Italia -19.7; Turkey-6.4)	61.4 (Turkey-15.1; Italia-7.6)	73.8 (Ukraine -15.4; Turkey - 4.5)
Five leading trade partners	64.7	85.89 (Russia-3.96; Kazakstan-2.5)	71.7 (Russia-6.1; Afghanistan -4.2)	80.6 (Italy - 3.9; UAE - 2.9)
<b>Uzbekistan</b>				
Leading trade partner	12.8 Russia	32.5 Russia	20.9 China	41.7 China
Three leading trade partners	30.6	49.9 (Italia- 9.4; Ukraine -8.1)	59.4 (Russia -24.5; Turkey- 13.9)	83 (Kazakhstan -20.9; Turkey -20.4)
Five leading trade partners	40.0	59.1 (Korea - 5.0; Turkey- 4.2)	80.3 (Afghanistan -13.6; Kazakhstan- 7.3)	88.3 (France - 3.4; Ukraine - 1.9)

Sources: The Observatory of Economic Complexity 2010 (<http://atlas.media.mit.edu/en/>); Zhukov et al, 2001, p.115; UNCTADstat data 2014 (<http://unctadstat.unctad.org/CountryProfile/home/Indexen.html>).

As shown in table 2.12, exports of Central Asian states over the past 20 years were concentrated geographically on a small number of markets.

During the period under review, a quarter and more than a quarter of Central Asia's exports accounted for one trading partner. In 2014, the dependence on one export market of Turkmenistan and Uzbekistan were the highest in the CAR and amounted to 53.9 and 41.7 percent of total exports respectively.

At the same time, in 2014, the three leading export partners absorbed 44.2 percent of total exports of Kazakhstan and Tajikistan, 55.3 percent of total exports of Kyrgyzstan, 73.8 and 83 percent of total exports of Turkmenistan and Uzbekistan respectively. The five leading export markets accounted for 56.4 percent to 88.3 percent of total exports, of which Kazakhstan and Tajikistan were more diversified geographically as a whole in comparison with other Central Asian states.

In the first decade after gaining independence, the exports of Central Asian states were focused primarily on the markets of Russia, the European Union, and the Ukraine. In the second decade, all five countries started gradually redirecting their export destinations from the markets of European countries towards China, Turkey, Iran, Afghanistan, the Republic of Korea, and to other Asian partners (Dadabaeva, 2014, p.22).

In particular, China has become one of the largest export partners of almost all Central Asian states in recent years due to the large-scale presence of Chinese capital in the projects for oil and gas extraction and mining.

Nonetheless, despite the high dependence in each of the Central Asian economies on the limited number of export markets, as a whole, the geographical structure of exports of the CAR is too fragmented. By deepening their specialization on exports of natural resources, Central Asian economies have increased their dependence on a limited number of foreign markets and has inhibited the development of manufacturing and other sectors potentially competitive on the world markets. The predominance of the raw materials sector in Central Asian economies, coupled with an underdeveloped manufacturing industry hinders the formation in Central Asian regions of a unified economic block strengthened by common interests.

Furthermore, the high sectoral and geographical concentration of exports increases export risks in the region and signifies that external shocks easily extend to local Central Asian economies. The unfavorable dynamics in only two or three raw commodity markets, as well as the possible economic disruption in the very limited number of countries, may have an immediate effect on the economic trends in the states of the region.

The relatively high dependence of Central Asian economies on the limited number of export markets can be explain by the fact that main export flows in these states are driven by the demand from major industrial economies for hydrocarbons and other commodities existing in the region.

#### **2.4.3. Dynamics, structure and economic impact of foreign direct investment into Central Asian countries**

Foreign direct investment (FDI) has played an important role in the formation of the geographical structure of exports of Central Asian states, the volume of which has begun to increase rapidly from the mid-1990s (table 2.13).

Table 2.13. Net inflows of foreign direct investment (FDI)<sup>61</sup> to Central Asian states from 1990 to 2013

Country	Σ1990-2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
<b>US\$ million (current)</b>											
Kazakhstan	21 149	2 546	7 611	11 973	16 819	14 276	7 456	14 287	15 117	9 739	<b>120 973</b>
Kyrgyzstan	657	43	182	208	377	189	438	694	372	758	<b>4 129</b>
Tajikistan	485	54	339	360	376	16	-16	67	198	-54	<b>2 086</b>
Turkmenistan	1 975	418	731	856	1 277	4 553	3 631	3 399	3 159	3 061	<b>23 060</b>
Uzbekistan	1 106	192	174	705	711	842	1 628	1 467	1 094	1 077	<b>8 996</b>
<b>% of gross domestic product (GDP)</b>											
Country	annual average (1990-2004)	2005	2006	2007	2008	2009	2010	2011	2012	2013	annual average (2005-2013)
Kazakhstan	6.6	4.5	9.4	11.4	12.6	12.4	5.0	7.7	7.5	4.0	<b>8.1</b>
Kyrgyzstan	0.2	1.7	6.4	5.5	7.3	4.0	9.1	11.2	5.7	10.0	<b>6.1</b>
Tajikistan	2.2	2.4	12.0	9.7	7.3	0.3	-0.3	1.0	2.8	-1.0	<b>3.6</b>
Turkmenistan	3.8	5.2	7.1	6.8	6.6	22.5	16.1	12.1	9.4	7.0	<b>9.7</b>
Uzbekistan	0.6	1.3	1.0	3.2	2.5	2.6	4.2	3.2	2.1	2.0	<b>2.3</b>

Source: Authors' calculation based on World Development Indicators (<http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>)

<sup>61</sup> FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy.

As follows from table 2.13, in the period under review, FDI net inflows into the countries of the Central Asian region have varied significantly. Some countries of Central Asia (Kazakhstan, Turkmenistan) have managed to attract significant amounts of FDI. In 2012, Kazakhstan entered the ranks of the top 20 economies of the world receiving FDI (United Nations Conference on trade and development, 2013, p. xv). Other countries (Kyrgyzstan, Tajikistan and Uzbekistan) were less successful in attracting FDI.

In absolute terms, Kazakhstan has been the largest FDI recipient in Central Asia. According to calculations based on data of World Development Indicators, Kazakhstan's economy has attracted \$US 121 billion of FDI from 1990 to 2013. At the same time, UN data of the net inflows of FDI in Kazakhstan should be considered conservative, since they are understated compared to the national statistical agencies data available. Kazakhstan's authorized official persons assert that since gaining independence the national economy has attracted \$US 200 billion or more than 80 percent of all FDI directed to Central Asia.<sup>62</sup>

Differences in estimates of the value of FDI net inflows in the economy of Kazakhstan can be explained by the fact that "about 20-25 percent of FDI, which were previously removed from the country by Kazakh businessmen, later returned to Kazakhstan under the jurisdiction of the Netherlands and some other states and territories with tax haven status" (Minchenko et al, 2013 p.3).

At the same time, in the period under review, Tajikistan and Kyrgyzstan received the lowest amounts of FDI in the CAR. In 2010 and 2013, net inflow of FDI to Tajikistan was even negative, as the outflow of FDI from the country exceeded inflow in the country. Low investment activity in both countries was caused by the high level of economic risks and political instability in them. Moreover, most investments were not directed towards

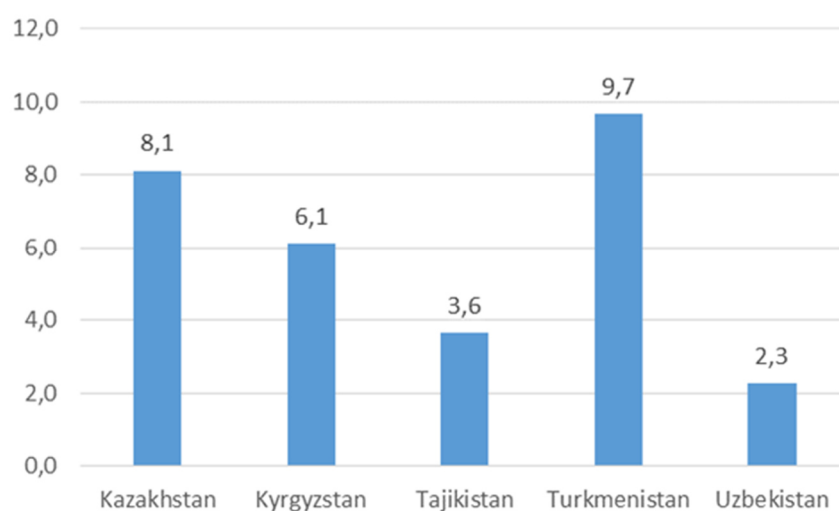
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<sup>62</sup> <http://www.inozpress.kg/news/view/id/44489> Казахстан аккумулировал свыше 80% прямых иностранных инвестиций, привлеченных в Центральную Азию (Kazakhstan has accumulated more than 80% of direct foreign investments to Central Asia). D. Alenova. InoZpress. March 11, 2015.

the development of certain sectors of economy, but to the formation of the so-called democratic institutions, which do not create added value.<sup>63</sup>

In relation to GDP, the largest FDI recipient in 1990-2013 years was Turkmenistan (figure 2.5).

Figure 2.5. FDI inflows to Central Asia, 1990–2013 as percentages of GDP



Source: Graph based on data of table 2.14.

Figure 2.5 illustrates that average annual FDI net inflows to Turkmenistan were 9.7 percent of GDP, thus ranking Turkmenistan 26th in the world and 6th in Asia (Asian Development Bank Institute, 2014). During this period, Kazakhstan’s FDI inflows exceeded 8.1 percent of GDP per annum. Uzbekistan had the lowest ratio of average annual FDI among Central Asian states, which amounted to 2.3 percent of GDP.

In all five countries of the region, FDI net inflows were quite volatile. During 2005–2013, FDI inflows varied from 5.2 percent to 22.5 percent of GDP in Turkmenistan, from 1.0 percent to 12.0 percent in Tajikistan, from 4.0 percent to 12.6 percent in Kazakhstan, from 1.7 percent to 11.2 percent in Kyrgyzstan, and from 1.0 percent to 4.2 percent in

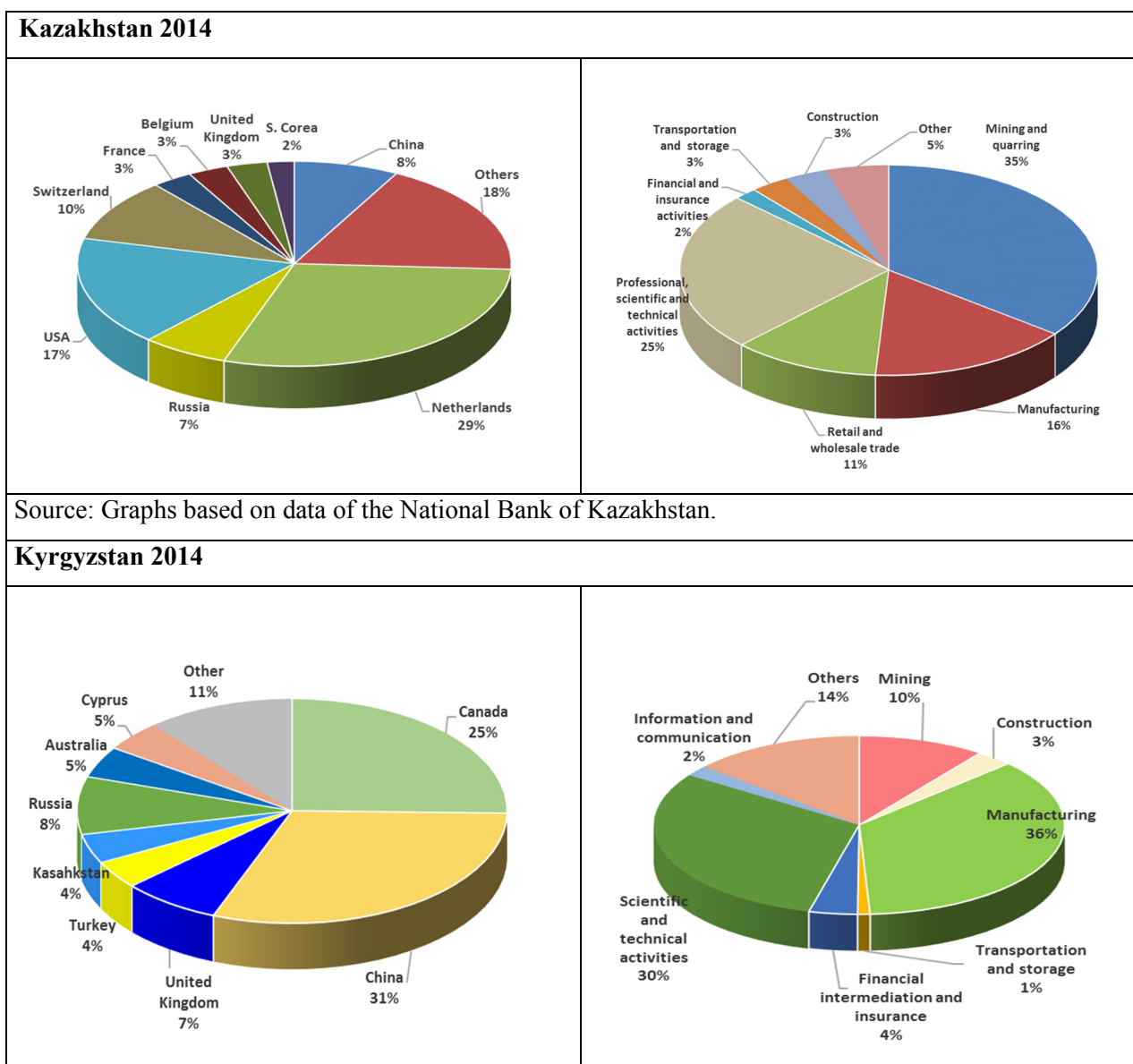
<sup>63</sup> <http://www.regnum.ru/news/economy/1423225.html> Об экономических итогах «послереволюционной» Киргизии (The economic trend of the “post-revolutionary” Kyrgyzstan). A.Mihryan. July 08, 2011.



Uzbekistan. In the period under consideration, FDI inflows in CAR do not seem to follow strictly the different phases of the global economic cycle and “it seems that their dynamics depend more on the implementation schedules of large investment projects related to energy and mining” (Asian Development Bank Institute, 2014).

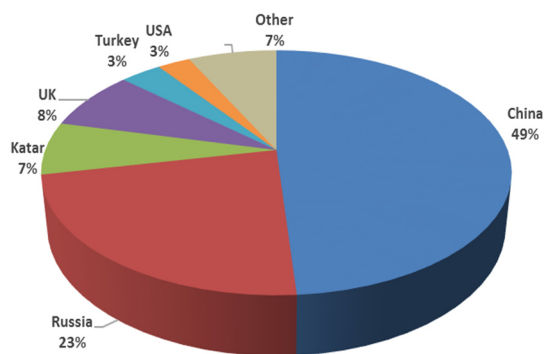
At the same time, all Central Asian republics have shown similar trends of FDI inflows by sector and by country of origin (table 2.14).

Table 2.14. Structure of FDI inflows into Central Asia by sector and by country of origin



Source: Graphs based on data of the National Statistical Committee of the Kyrgyz Republic.

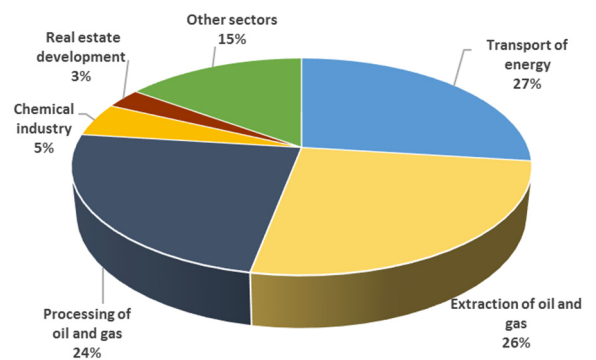
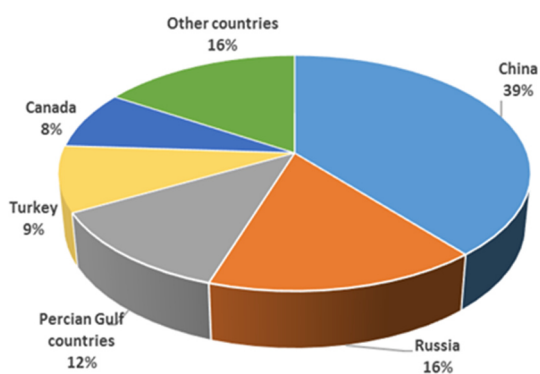
**Tajikistan 2013**



Mining, geological explorations, communications, financial services, construction, electricity production and distribution, public health services, the development of air transport.\*

Source: Graphs based on data of the statistical agency under the President of the Republic of Tajikistan.  
 Note:\* A more detailed structure of FDI by sector is not available.

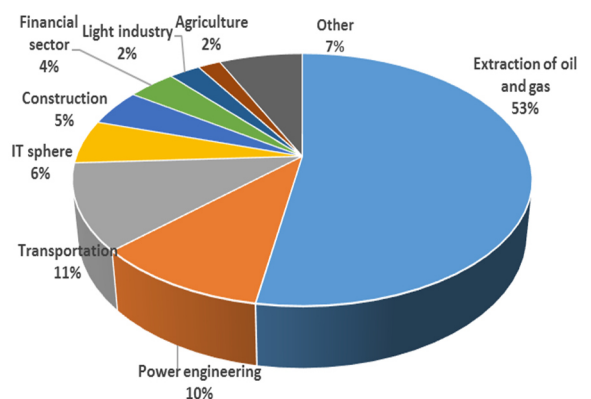
**Turkmenistan 2012**



Source: Asian Development Bank Institute, 2014

**Uzbekistan 2014**

Key investor countries: China, Russia, Germany, South Korea, Netherlands, United Kingdom, Japan, ASEAN, other countries.



Source: Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan.  
 Note: A more detailed structure of FDI by country of origin is not available.

Table 2.14 demonstrates that in the period under review China, Russia, some countries of the European Union and the United States have become the key investor countries in the Central Asian region. However, their presence has been varied.

China's investments in all economies of the region have grown very quickly. For example, in 2005, the shares of China's investment in Kazakhstan and Kyrgyzstan amounted to 3 percent and 2 percent respectively in total FDI inflows in these countries; by 2014, these shares had already increased to 8 percent and 31 percent respectively. In Tajikistan, China's share in total FDI increased from 4 percent in 2009 to 49 percent in 2013. In Turkmenistan, China's share in total FDI of Turkmenistan amounted to 39 percent in 2012 (Xiaofeng et al, 2013). Much of these investments are concentrated in natural resource extraction companies, but they are gradually expanding into other sectors.

Infrastructure and trade are the foundations of China's push into Central Asia. Beijing financed and constructed an oil pipeline from Kazakhstan in 2006 as well as a large gas pipeline (known as the Central Asia - China gas pipeline) from Turkmenistan across Uzbekistan and Kazakhstan to China's western provinces of Xinjiang in 2009. By 2016, it has also planned to extend an additional gas pipeline, which will cross the territory of Kyrgyzstan.<sup>64</sup> This gas pipeline broke the Russian stranglehold over Turkish gas export that existed since the Soviet Union collapse (China now imports more Turkish gas than Russia does).

Moreover, China is pressing for the construction of new railroads into Central Asia. Beijing is also a major funder of CAREC through the Asian Development Bank. CAREC's long-term strategy for regional development (formalized in 2012) provides the construction of six major corridors running from ports on China's east coasts across Central Asia to points further west (Mankoff, 2013). These new infrastructures underpin growing economic and political ties between China and all five Central Asian republics.

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<sup>64</sup> <http://neftegaz.ru/news/view/112066>. 3-я нитка Трансзиатского МГП Туркменистан - Китай может быть проложена по территории Киргизии (The third line of Turkmenistan - China gas pipeline could be laid on the territory of Kyrgyzstan). Journal «Neftegaz.RU». August 5, 2013.

It is necessary to note that if China's investments were put together with those from Turkey, Iran, Afghanistan, the Republic of Korea, and, to a lesser extent, Japan and ASEAN member states, it would be evident that Asian partners have provided with a more and more significant role than in the past.

In 2014, the countries of the European Union (mostly the Netherlands (US\$ 7 billion), the United Kingdom (US\$ 0.7 billion), France and Belgium (US\$ 0.8 billion from each country) have become the largest investors in Kazakhstan. Nevertheless, in the other four Central Asian countries its role was much smaller, with only the United Kingdom being a key investor.

According to the National Bank of Kazakhstan, in 2014 total FDI inflow to Kazakhstan amounted to US\$ 23.9 billion, from which the Europe Union share accounted for US\$ 10.7 billion or 45 percent of total FDI inflows to the country. Very significant investments were directed towards the energy sector<sup>65</sup>.

The European Commission's multi-annual cooperation with Kazakhstan and other countries of Central Asia has provided an investment of EUR 719 million for regional programmes and country-based projects between 2007 and 2013<sup>66</sup>. The biggest share of these funds was allocated to social and economic development and supported for state and administrative reform, while regional programmes prioritized cooperation in the field of energy and transport, environment, education, security and stability.

Russia is also one of the largest investors in Central Asian countries. Since the early 2000s, Russia has begun to invest actively in the extraction and transportation of energy resources in Kazakhstan, Uzbekistan and Turkmenistan. Moreover, Russia significantly invests in the space industry of Kazakhstan.

In relation to Kyrgyzstan and Tajikistan, Russia's foreign policy is determined more by geopolitical interests, rather than economic feasibility. Investments in the hydropower

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<sup>65</sup> <http://www.nationalbank.kz/?docid=469&switch=english> National Bank of Kazakhstan, Official internet-resource. Direct Investments Statistic according to the directional principle.

<sup>66</sup> [http://www.eeas.europa.eu/delegations/kazakhstan/central\\_asia\\_eu/index\\_en.htm](http://www.eeas.europa.eu/delegations/kazakhstan/central_asia_eu/index_en.htm) Delegation of the European Union to Kazakhstan.

sector of both energy-poor countries are considered by Russia as a guarantee of loyalty to the local political regimes.

Russia's presence in the Central Asian energy sector is largely explained by the fact that the extraction of hydrocarbons in the region is technologically easier and economically more profitable than the extraction of hydrocarbons in the north of Russia, where the vast majority of oil and gas fields of the country are concentrated. Russia also has a range of opportunities to import gas on commercially attractive terms from Central Asia and the Caspian Sea through established Soviet era pipeline networks. Russia seeks to involve as much of Central Asian hydrocarbons in its energy balance in order to maintain domestic consumption, without reducing the volume of hydrocarbon exports to foreign markets, primarily to Western Europe. As a result of such a policy, exports of energy resources from Central Asian regions to Russia have steadily increased in recent years.

Nonetheless, Russia's investment in hydrocarbon sectors in Central Asia is modest in comparison with investments by other dominant international actors, and much of them are directed towards the economies of Kazakhstan and Uzbekistan. In Turkmenistan, Russia's presence remains rather limited, as Ashgabat only permits foreign companies to invest in offshore deposits, which are the most costly and challenging on a technical level. Because the status of the Caspian Sea remains unresolved, such deposits are also the most complex geopolitically since they are often close to the Iranian border.

According to Western analysts, Russia is reinforcing Central Asia in its role as an exporter of primary resources by neglecting to develop its hydrocarbon refining capacity, especially the manufacture of products with high added value. In connection with this, it should be noted that during the Soviet era oil refining determined the considerable volume of mutual deliveries of "black gold" in Russo-Central Asian energy exchanges (approximately four times more than today) (Paramonov et al, 2008).

Laruelle (2009, p.7) asserts "Central Asian economies are destined to serve above all as transit zones for Russo-Chinese trade, hence the emphasis on infrastructure and all the freight-related services."

Nonetheless, it is important to stress that Russia and China have refused ideological mediation in economic and political relations with Central Asian countries. Russian and

Chinese political and economic strategies in Central Asia differ advantageously from the strategies of the US and EU. The latter are based on providing investments and loans to the countries of Central Asia in exchange for the implementation of democratic reforms that have proven to be ineffective in this region already by 1993 (see chapter 1 of this paper).

Canada, Switzerland, and the Persian Gulf countries represent other large investors in the region.

As follows from table 2.14, in the period under review, foreign investment inflows were directed towards the raw materials sector of Central Asian economies: extraction, processing, and transportation of hydrocarbons and metals. The production of enterprises supported by these investments is mostly exported abroad.

The important factors of attracting FDI in this sector have been opening oil and gas fields for foreign investors and the permanent growth of prices for hydrocarbon and other raw materials. According to estimates of the International Monetary Fund, from 2003 to 2013 hydrocarbon and metal prices increased more than threefold.

FDI come to Central Asia in search of new markets in the non-tradable sectors. Table 2.14 illustrates that the market-seeking motive is well represented in CAR, as witnessed by the high share of sectors serving domestic markets, including construction, real estate development, finance, trade, and communications in the structure of FDI. The share of non-tradable sectors is especially high in Kyrgyzstan and Tajikistan, which do not have large hydrocarbon deposits. Investments in non-tradable sectors are indirectly dependent on FDI in the natural resource sectors thanks to their contribution to economic growth and the expansion of domestic markets of recipient countries.

Trade protectionism, which may be one of the reasons for market-seeking investments and which is practiced by some governments of the Central Asian region, does not attract much investment into sectors protected from the inflow of imports. The Daewoo and General Motors automobile plant in Uzbekistan, which was launched in the mid-1990s, is only one large protection-driven investment project in the CAR. No other manufacturing project of comparable scale unrelated to the region's natural resources has been realized since then (Asian Development Bank Institute, 2014).

Agriculture sectors receive relatively small shares of FDI or virtually no investments at all.

Labor force has also not attracted much investment into the CAR. The strong appreciation of regional currencies against the US dollar in 2000-2012 and the widespread migration of workers from Kyrgyzstan, Uzbekistan, and Tajikistan into Russia and some other countries kept wages in the region relatively high and has not led to economically feasible investments in labor-intensive industries.

As for efficiency-seeking FDI in Central Asia, the returns on FDI vary significantly by country and highly depend on the sectors receiving FDI. In Kazakhstan, where the energy sector is a key recipient of FDI, the rate of return on invested capital is the highest in the region and amounts to 25 percent. In Tajikistan, where the less profitable electricity generation is the main recipient of FDI, the rate of return amounts to 2.1 percent (Asian Development Bank Institute, 2014).

In 2014 and for 9 months in 2015, the risks for foreign investors in Central Asia increased significantly owing to political unrest and an unfavorable situation on world markets. Currently, the region is indirectly touched by war sanctions between Russia and the West, and the dangerous expansion of IS terrorist groups.<sup>67</sup>

Over the past two decades, the increased role of global value chains has transformed the world economy. The declining cost of communication and international shipping has caused production processes to be broken down into smaller parts and has spread across geographical areas. International commerce is now dominated by trade in intermediate products, rather than final goods and services. In this connection, it should be pointed out that in Central Asia there is no investment project that forms part of such global supply chains, principally due to lack of regional cooperation and an efficient transport infrastructure (European Bank for reconstruction and development, 2014).

At the same time, in Central Asia the share of enterprises with full foreign participation and joint enterprises receiving FDI has constantly increased. For example, in Kazakhstan and Uzbekistan the largest number of enterprises with participation of

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<sup>67</sup> <http://www.ictsd.org/> Эксперты отмечают рост рисков для привлечения инвестиций в страны Центральной Азии (Experts note the increase of investment risks in Central Asian countries). International Centre for Trade and Sustainable Development. March 3, 2015.

foreign capital (8000 and 4833 respectively) have been registered in the region. Moreover, in Kazakhstan the share of enterprises with full foreign participation amounts to 53.8 percent of total enterprises receiving FDI (Statistical Agency of Kazakhstan; State Statistics Committee of Uzbekistan).

Such a situation has led to no development of any competitive domestic industries after almost 25 years since gaining independence in the Central Asian regions. The national economies are almost entirely dependent on foreign investors - in receiving funds and new technologies, in geological explorations and mining of natural resources, in laying pipelines. This means that the technical and industrial structure of the Central Asian states is largely formed by external factors of the global economic order. For foreign investors, the Central Asian regions are a raw materials reservoir for the world economy and there is no contribution to the diversification of the local economies.

As the high sectoral and geographical concentration of exports could increase export risks for the states of the region, foreign investment is also able to transmit a strong economic shock in the national economy. The significant inflows of foreign capital over a number of years, as well as a sharp decline in investment inflows could have a destabilizing impact on the dynamics of the economic development in the recipient country.

Excessive investment in the natural resources sector caused by favorable commodity prices in the world markets may attract labor forces from the non-commodity sectors. This situation could lead to an increase in wages in the raw materials sector and the growth of the real exchange rate. Expensive national currency suppresses economic activity in the non-commodity sectors, due to the high production costs for domestic industries thereby causing deindustrialization of the national economy, and stimulates the switching of consumer demand for cheap imports. This situation in the economic literature is qualified as “Dutch disease” (Egert, 2013, p.3).

The Kazakh economy, which has seen a boom of foreign investment in the raw materials sectors over the last two decades and has increased revenues from hydrocarbon exports, is predisposed to such a disease. The situation is saved thanks to the fact that, on the one hand, the significant parts of the national export revenues are purely nominal; in fact, they are the profits of foreign companies extracting hydrocarbon in Kazakhstan. On



the other, inflows of foreign currency are neutralized by massive capital flight from the country.

Serious problems in the economy might arise also in the case of reduction of FDI inflows and export revenues. In this situation, a deep devaluation of national currency would provoke a new surge of inflation. Simultaneously, the purchasing power of the population and economic agents would reduce sharply thus leading to a decrease in final demand.

All Central Asian economies are characterized by interest in attracting FDI, regardless of the country of their origin or their foreign policy orientation - Chinese, Russian, Western, and others. At the same time, over the last few years, China has increased its influence in Central Asia in comparison with other global actors. The main instrument of Chinese policy in Central Asia has become investments to the countries of the region, most of which were provided in the form of loans. Loans are issued proportionally to the recipient country's commodity turnover with China, and are not necessarily on beneficial terms for the national economies (Semenova, 2012). For some of Central Asian countries, it makes the problem of the repayment of external debts relevant, and increases their dependence on foreign creditors (for the most part from the Chinese side), as it requires new loans mainly to pay off the old ones. According to analytical estimates, Kazakhstan, Kyrgyzstan and Tajikistan in the future may face the impossibility of servicing these loans.<sup>68</sup>

#### **2.4.5 External shocks and restrictive trade policies of the national governments**

After gaining independence, the total external debt increased significantly in almost all Central Asian economies (table 2.15). In connection with this, it is important to note here that the Central Asian post-Soviet states started their debt story from scratch, since Russia assumed all the external liabilities of the former Soviet Union (Zhukov et al, 2001, p.120).

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<sup>68</sup> <http://ia-centr.ru/publications/19079/> Китайские кредиты странам Центральной Азии: риски очевидны (Chinese loans to the Central Asia countries: the risks are evident). A. Chekryzhov. "Berlek-Unity." September 17, 2014.

Table 2.15 Total external debt stocks\* of Central Asian countries (current billion US\$)

Countries	1993	2000	2005	2010	2011	2012	2013
Kazakhstan	1.7	12.9	43.9	119.1	124.3	135.5	148.5
Kyrgyzstan	0.3	1.9	2.3	4.1	5.9	6.0	6.8
Tajikistan	0.4	1.1	1.1	3.1	3.3	3.6	3.5
Turkmenistan	0.3	2.6	1.2	0.5	0.5	0.5	0.5
Uzbekistan	1.0	4.9	4.7	7.8	8.4	8.8	10.6

Source: The World Bank.

Note: \*Total external debt is debt owed to non-residents repayable in currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private non-guaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt.

As follows from table 2.15, Turkmenistan has used fewer foreign loans than all the Central Asian states. The foreign debt of Turkmenistan remained unchanged from 2010 to 2013 and amounted to US\$ 0.5 billion. Kazakhstan has the highest external debt in the region, which amounted to US\$ 148.5 billion in 2013.

In order to estimate the amount of external debt it is necessary to consider also the ratio of external debt to GDP, since the value of this indicator measures the effectiveness of using foreign loans and credits (table 2.16).

Table 2.16 Total gross external debt of Central Asian countries (percent of GDP)

Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
Kazakhstan	78.9	67.2	64.6	67.5	72.9	72.1
Kyrgyzstan	94.9	79.3	71.9	76.3	86.9	88.3
Tajikistan	68.5	46.3	43.2	40.8	46.0	47.1
Turkmenistan	11.9	18.1	21.1	16.8	18.6	16.4
Uzbekistan	26.4	12.9	12.7	13.0	13.2	13.1

Source: The International Monetary Fund, 2015a.

Table 2.16 shows that during the period under review Kazakhstan, Kyrgyzstan and Tajikistan had the highest ratio of their external debt to GDP among the Central Asian countries due to the attraction of significant foreign loans and credits.

In 2014, in Kyrgyzstan the ratio of external debt to GDP amounted to 76.3 percent, it was the highest value of this indicator in the region. The significant increase of the external debt (from US\$ 0.3 billion in 1993 to US\$ 6.8 billion 2013) of Kyrgyzstan might indicate that slow economic growth in this republic (table 2.6) has been achieved only thanks to attracting foreign loans and credits. Foreign investment and loans have not allowed Kyrgyzstan to solve any of its economic problems caused by the significant state budget deficit, the stagnation of the economy and high unemployment, on the contrary, they have practically driven the republic into a “debtor’s prison”.

At the same time, in the state balance of Kyrgyzstan, there are gold deposits with proven reserves of 430 tons, but corruption reduces the budget revenues from these gold deposits despite the fact that the country practically “stands on gold”. The most important political request of the Kyrgyz opposition has become the nationalization of the main gold field “Kumtor” owned by the international company “Centerra Gold Inc.”, and the contribution of which in the Kyrgyz economy in 2014 amounted to 11 percent of GDP, over 50 percent of industrial production and more than 50 percent of national exports<sup>69</sup>.

Kyrgyzstan does not possess the necessary technical and financial resources to mine other gold fields. Therefore, the development of the mining industry in the country is only possible by attracting new foreign investment and loans. From 2014 the Chinese company, “Jin Zi” has begun to develop a gold deposit, “Taldy-Bulak Levoberezhny”, with proven reserves of 80 tons. According to IMF forecasts, under these circumstances external debt for the following two years can only continue to increase.

In terms of external debt, Turkmen and Uzbek economies are more balanced in comparison with the three above-mentioned economies. In 2014, the ratio of foreign debt to GDP amounted to 16.8 percent in Turkmenistan and 13.0 percent in Uzbekistan. At the same time, the ratio of foreign debt to GDP in both countries would be higher in

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<sup>69</sup> <http://ria.ru/world/20121003/765322014.html> В Киргизии снова митингуют, на сей раз – за национализацию рудника (Meetings for the nationalization of the gold mine are held again in Kyrgyzstan). RIA News. October 03, 2012).

comparison with the indicators that are shown in table 2.16, if we used the exchange rate on the “black markets” of these two states for calculations of GDP (see p.92 of this paper).

In December 2014, Russia wrote off Uzbekistan’s US\$ 850 million debt, or about 8 percent of the total external debt of the country. According to analysts, the main factors that stand behind the Russian debt write-off are the prospects of Uzbekistan joining the Eurasian Economic Union (EEU), and the strengthening of cooperation in security matters in the CAR<sup>70</sup>.

Thus, as the analysis given above has shown, the impact of external factors on Central Asian economies leads to short periods of sharp economic growth, which are quickly replaced by no less rapid periods of recessions. Such a serrated pattern in the dynamics of economic development has imposed a number of restrictions on the Central Asian economies and has required that the national government must conduct an appropriate economic policy to minimize vulnerability to external shocks. The major task of national governments has become the attainment of an equilibrium in international trade and the establishment of mechanisms capable of dampening the demand fluctuations on the world markets thereby providing smoother dynamics of economic development in their countries.

The Central Asian countries themselves cannot influence the level of their export earnings due to their dependence on a few trading partners and the predominance of exports of raw materials and low-processed manufacturing products. In this connection, the standard leverages to reduce current account deficit usually involves increasing exports or decreasing imports. The promoting of exports is accomplished directly through subsidies, custom duty exemptions, etc. Moreover, national currency devaluation, which influences the exchange rate and makes exports cheaper for foreign buyers, could also indirectly increase the balance of payments. The reduction of imports is realized through import restrictions, quotas, or duties. Furthermore, the reduction of wages or adjusting government spending to favor domestic suppliers indirectly could also lead to a

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<sup>70</sup> <http://www.inozpress.kg/news/view/id/43290> Что стоит за списанием Россией долга Узбекистана (What stands behind Russia writing off the debt of Uzbekistan?). V. Volkov. «Deutsche Wele». December 11, 2014.

compression of imports. Less obvious methods to reduce a current account deficit include measures that increase domestic savings or reduce domestic borrowing.

Energy-exporting Central Asian economies receiving high export revenues have had a relatively balanced current account in the post-transitional period, with the exception of Turkmenistan over the last two years (tables 2.17, 2.18).

Table 2.17 Current account balance of Central Asian countries (billion US dollars)

Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
Kazakhstan	0.1	1.0	1.1	3.4	-8.3	-6.7
Kyrgyzstan	-0.2	-0.1	-1.1	-1.0	-1.3	-1.2
Tajikistan	-0.1	-0.2	-0.2	-0.8	-0.6	-0.5
Turkmenistan	0.7	0.0	-3.0	-2.9	-4.9	-3.5
Uzbekistan	1.2	0.6	-1.0	0.1	0.2	0.2

Source: The International Monetary Fund, 2015a.

Table 2.18 Current account balance of Central Asian countries (percent of GDP)

Countries	Average 2000-11	2012	2013	2014	Projections	
					2015	2016
Kazakhstan	-1.0	0.5	0.5	1.6	-4.1	-3.1
Kyrgyzstan	-3.6	-15.6	-15.0	-13.7	-17.0	-15.2
Tajikistan	-3.9	-2.5	-2.9	-9.1	-7.1	-5.8
Turkmenistan	4.1	0.0	-7.3	-5.9	-11.1	-6.7
Uzbekistan	5.2	1.2	-1.7	0.1	0.2	0.2

Source: The International Monetary Fund, 2015a.

As tables 2.17 and table 2.18 show, the Kazakh, Turkish and Uzbek economies have had current account surplus for most of the period under review.

In Uzbekistan, trade surplus is regulated by a conscious restriction of imports. Kazakhstan has also used the reduction of imports in periods of unfavorable conjuncture

on the markets of raw commodities. However, in contrast to Uzbekistan, which is restricting import flows with administrative measures, Kazakhstan uses tools of the state economic policy such as the devaluation of the national currency.

Kazakhstan's economy has had a current account surplus in recent years but the negative impact of external shocks of 2014 and over nine months of 2015 have led to the macroeconomic instability of the country (currently, this trend is characteristic on the whole for all the countries of the Central Asian region). According to IMF forecasts, the deficit of the current account balance of Kazakhstan could amount to US\$ 8.3 billion and US\$ 6.7 billion in the next two years, or -4.1 and -3.1 percent to GDP respectively.

On the one hand, the devaluation of the yuan and the depreciation of the ruble against the US dollar almost by half over the last year have made exporting into Russia and China ineffective for Kazakh exporters. On the other, an unfavorable raw economy reduction of hydrocarbon and metal prices on the world markets, which could decrease further in value due to the lifting of sanctions against Iran, has worsened the prospects for sustained economic growth in Kazakhstan.

All these factors have forced Kazakhstan in the current year to conduct a protectionist policy to ensure export competitiveness of domestic industries in the countries that are major trading partners of Kazakhstan or produce similar products by means of joining the so-called currency wars (competitive devaluations). In August of 2015, the Central Bank of Kazakhstan adopted the free-floating exchange rate of the tenge (the currency of Kazakhstan) in order to achieve a relatively low exchange rate for its currency, and eventually to increase export revenues.<sup>71</sup>

During the last two years, Turkmenistan has had a current account deficit due to the decline of revenues from exports of hydrocarbon resources and owing to restrictions on the growth of investment spending adopted by the government of the country (The International Monetary Fund, 2015b). The available major international reserves provide a guarantee that the country could withstand the external shocks predicted by IMF in the following two years.

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<sup>71</sup> <http://www.vestifinance.ru/articles/61424> Обвал тенге. Казахстан вступает в валютную войну (The collapse of the tenge. Kazakhstan enters into currency wars). VGTRK. Economy news. August 20, 2015.

As for Kyrgyzstan and Tajikistan, these states are far from achieving a current account surplus. In 2014, the deficit of the trade balance constituted -9.1 percent to GDP in Tajikistan and -13.7 percent in Kyrgyzstan. Such current account imbalances in the national economies hinder the predicted behavior of the exchange rates in both countries and exclude the conducting of any effective investment and industrial policy in them.

The current account deficit indicates the lack of competitiveness of export industries in both republics, which in turn leads to the devaluation (depreciation) of the currencies of these countries. Given that Kyrgyzstan and Tajikistan are unable to increase export earnings, the compression of imports is the only real way to achieve a balanced current account (through a further devaluation of the national currencies). However, if devaluation can ensure the competitiveness of domestic industries in such countries as Kazakhstan, in Kyrgyzstan and Tajikistan that are highly dependent on imported goods, devaluation instead can seriously reinforce the negative trends in the national economies (such as a new wave of inflation and recession in economic activity) and provoke social tensions. Further external borrowing for the financing of imports and the problem of repayment of external debts makes the stabilization of both economies in the long-term prospects impossible.

## **2.5 Geoeconomic competition and the prospects of sustainable economic development in the Central Asian region**

According to Mackinder's geopolitical theory, Central Asia is the Heartland of world politics. This theory asserts that the power, which controls the Heartland, could control world affairs (Mackinder, 1996; cited Zabortseva, 2012, p.169).

In the nineteenth century, the region was the chessboard in the so-called "Great Game" for imperial rivalry existing between the British and Russian empires caused by their expansionist policies. After a hundred years, the resurgence of the "Great Game" took place with diversified objectives, strategies, and players (Qamar, 2014; Davis et al, 2004).

Today the major world powers, such as China, Russia, United States, as well as some European countries, Iran, Turkey and Pakistan are interested in access to the natural resources of Central Asia. They seek to participate in the extraction and transportation of

Central Asian hydrocarbons, which, among other things, provide them with an opportunity to influence the political situation in the region directly.

Access to an enormous concentration of natural gas and oil reserves located in the Central Asian region and the Caspian Sea Basins, as well as to precious and rare-earth minerals “represents objectives that stir national ambitions, motivate corporate interests, rekindle historical claims, revive imperial aspirations, and fuel international rivalries” (Brzezinski, 1997, p.125).

Geoeconomic contradictions between external players for the resources of the region even in the short term create uncertainty connected with the direction of export flows and hinder economic development of the Central Asian states.

Being a hostage of geostrategic players the CAR has not been able to become the independent and self-sufficient center of power and influence, thereby repeating in a certain sense the fate of the Middle East. Currently, Central Asia is being formed as a relatively isolated region from the global processes because multidirectional external forces do not allow the opening of a Central Asian space to equal economic cooperation with other regions of the world (Kazantsev, 2008).

The fragility of the post-Soviet Central Asian economies, caused to a large extent by the globalizing processes which are impeding the crystallization of new nation-states, has led to foreign economic ties in the CAR shaped by transnational corporations, banks, financial and investment institutions. Commodity-oriented exports of Central Asian states and its geographical destination have derived from global network activities of transnational corporations and groups, which consistently expand and strengthen their control over the natural resources of the region, monopolize the national markets and undermine the sovereignty of the Central Asian states.

Central Asian states are almost entirely dependent on foreign investors in obtaining financial resources and new technologies. FDI inflows into Central Asia, provided mostly in the form of long-term loans, firmly consolidate the raw materials niche of the region in the global division of labor and create the favorable conditions for the establishment in the CAR of an “external administration”, most probably from China.

Over the past few years, thanks to low-interest loans, capital investment in infrastructure and projects for the extraction of natural resources, China has become a



major economic partner for all five Central Asian countries. Every year, China's economic influence in Central Asia grows exponentially. On the one hand, China's economy has huge needs for hydrocarbon resources and different types of mineral commodities from Central Asia because it aims to reduce dependence and the risks of maritime supplies from the Middle East and Africa. On the other, Beijing seeks to obtain economic opportunities to control Central Asia, turning it into a kind of buffer that helps to contain religious extremism and separatist forces in one of its largest and poorest bordering Central Asia Xinjiang Uyghur Autonomous Region (Semenova, 2012).

According to Mankoff (2013, p.22) "these roads, railway, and pipelines all underpin China's growing economic and cultural presence in the region, and they are likely to have a more enduring impact on Central Asia's long-term development than either the war in Afghanistan or Russian's push for regional integration".

At the same time, Central Asian governments worry about the possibility of a popular backlash against Chinese development projects that seem to benefit Chinese companies and imported Chinese workers more than the local economies. Moreover, political elites in much of Central Asian republics fear that the changing trade and investment patterns threaten to replace Russian's historical dominance of the region with China's (Peyrouse, 2009).

The reduction in Russia's economic influence in the region, and the withdrawal of US forces from Afghanistan in 2014 (due to the rebalancing of the Obama administration toward the Pacific and significant cuts to the military budgets) changed both the nature and the extent of US interests in Central Asia. China today has become the most influential actor in Central Asia.

However, according to some analysts, eventually, Russia and China and perhaps Iran are likely to be rivals for power and influence in Central Asia.

According to Laruelle et al (2013), nevertheless "the Central Asian states are by no means merely passive objects of international confrontation, but are themselves fully fledged actors". The presence of a certain degree of freedom in the formation of their own game rules by the Central Asian ruling elites, which they use to their advantage, cannot be ignored.

For example, Uzbekistan since 2005 has chosen to limit exploitation of new deposits and discouraged foreign activities in order to preserve its hydrocarbons for the future. Turkmenistan has been and still is very cautious about attracting foreign investments using restrictions on the growth of investment spending adopted by the government of the country (Laumulin, 2009; The International Monetary Fund, 2015b).

Paramonov (2008, p.107) asserts that “the extraction of hydrocarbons in Turkmenistan on the land is controlled by the state. Only the development of offshore fields (in the Turkmen section of the Caspian Sea) on the terms of Production Sharing Agreements is available to foreign investors”.

The comparison of the level of socio-economic development of countries rich in hydrocarbon resources (Kazakhstan, Turkmenistan and Uzbekistan) has shown that the results of using revenues from the export of energy resources vary by country. Only Kazakhstan has ensured sustained economic development. Turkmenistan and Uzbekistan inadequately exploited revenues from the export of energy resources and did not provide desirable economic growth.

Despite being involved in a difficult process of geopolitical balancing, all post-Soviet Central Asian states have managed to distance themselves from binding to any one global or regional center. The ruling elites of Central Asian states want to extract maximum economic benefits from their geopolitical position by allowing the rent of transit routes and the location of military bases as steps to support their fragile economies.

According to Bogaturov (2010, p.119), “the convergence of the course towards cooperation with Russia and China in Central Asian foreign policy on the one hand, and the desire to develop cooperation with the United States and the European Union, and involvement in military cooperation at the minimally required level on the other, is characteristic of the type of foreign policy which can be described as potential or delayed neutrality. In actual fact, this principle has become a system-making element in international relations in Central Asia.”

The multi-vector policy that has been chosen by all the Central Asian states as the main foreign policy strategy has largely determined the search for international partnerships to assist them with exploiting their resources, as well as in ensuring national and regional security.

According to Malisheva (2010, p.16), “a very peculiar phenomenon has arisen in Central Asia - no diversification of purposes, but diversification of political partners, and substitution of national foreign policy priorities by simplified maneuvering.”

Zahidov (2009, p. 27) asserts “currently in Central Asia a sort of peculiar foreign policy market has formed, where «buyer countries» with their interests are interacting with «seller countries» with their needs.”

Despite the fact that balancing external actors gives Central Asian states a greater degree of strategic independence than they enjoyed in the first post-Soviet years and reduces the pressure on national governments to reform, such a policy is ultimately inefficient, and even dangerous from the point of view of Central Asian long-term political and economic interests.

The multi-vector strategy based on foreign policy maneuvering, avoiding commitments, and achieving foreign loans and subsidies at the expense of their own sovereignty does not contribute to the transformation of the region into the independent subject of world politics. Various international partners for promoting their own, quite concrete geopolitical interests successfully use such uncertainty in foreign policy of Central Asian states.

Geopolitical uncertainty in the region is also typical in the economy sphere. As a whole, the unstable Central Asian economic models could provoke a political crisis and a new phase of redistribution of property, especially in the long-term outlook. Reliance on favorable world commodity prices and concentration only on a few export products might create difficulties in the future, given that natural resources will eventually be exhausted and that global commodity prices remain volatile. Moreover, FDI into Central Asia has largely been limited to the extractive sectors, and they could be unreliable as a source of capital inflow in the long term.

Population growth, which will continue in the region in the first half of the XXI century and the presence of serious restrictions in the development of the agriculture sector, could create pressure on the labor market. Export of labor can also provide only a short-term effect, but in the long-term outlook, it can increase social tensions.

To achieve sustainable economic development, Central Asian states need to diversify their economies by reducing dependence on commodity exports and

remittances, and by broadening their appeal for foreign investment and technologies beyond the extractive sectors.

On the one hand, greater product diversification would help Central Asian states to increase trade ties with major economic centers and to expand their market destinations. On the other, Central Asian states also “need to increase production and exports in the area of their comparative advantage, taking into account fixed costs and increasing returns in key sectors, such as oil, gas, and mineral extraction, as well as manufacturing sectors that require high capital intensity and entry barriers” (Asian Development Bank Institute, p.40-41). Thus, oil and gas services could become one of the most important sectors for transition from a raw material orientation economy to a high-tech economy in Central Asia.

Furthermore, in order to improve the productivity of the export basket, exports should be diversified by new high productive goods. Among the most promising directions of industrialization in Central Asia, the development of light industry (textile and apparel), food processing and chemical (petrochemicals and fertilizers) industries should be noted.

Sustainable economic development in Central Asia will also depend on regional trade and financial integration, investments in infrastructure and transport, and developing human and institutional capacity in management, financing, efficiency and maintenance.

At the same time, the differences between oil exporters and non-oil exporters, and their dependence on different export commodities imply that a single universal approach may not be suitable for all the Central Asian economies.

Today Kazakhstan, Turkmenistan and Uzbekistan have the greatest opportunity to lead a successful industrialization. These countries have significant human resources, as well as the possibility of redistributing incomes from the export of oil and gas resources into other industries and in construction. In Tajikistan and Kyrgyzstan, the possibilities for industrial growth are severely limited; however, with a successful economic integration with Uzbekistan, these countries could also have good chances of success.

In connection with this, it should be pointed out that the collapse of the Soviet Union predetermined the disintegration of the Central Asian region and the breaking up of a

single economic space, although some authors argue that in the Soviet period the integration was with Russia, but not between the republics (Dadabaeva et al, 2014). Currently, the Central Asian states do not act collectively in the world economic and political space, but rather autonomously and very often in a bilateral format (especially Turkmenistan and Uzbekistan).

Five Central Asian countries have completely different geopolitical aspirations that have very little in common. In their foreign policies, they all are aimed at the achievement of their own national interests (primarily, for the legitimation of their authoritarian regimes) rather than on the development of mutual relations within the region. According to Laruelle (2013), the Central Asian regimes “want to open up to the world but shut out their neighbors”.

The Central Asian states have completely mismatched economic strategies: Kyrgyzstan is pursuing a policy to reduce the regulatory role of the state. Kazakhstan forms a model of joint participation of the state structures and businesses in the economy. Uzbekistan acts in the opposite direction - it tends to retain its functions for the State. In Turkmenistan, the governmental structure and economic policies took unthinkable market economy forms, by adopting the elements of oriental archaic despotic regimes.

Moreover, the gaps in the levels of economic development determine the low interest of the neighbors of Central Asian countries to trade with each other. Mutual and cross-border trade has a fragmented and unsystematic character. Dadabaeva et al (2014) say that only about 5 percent of total exports or imports of these countries accounts for the other Central Asian countries. The largest regional trade partner of all countries of the CAR is Kazakhstan (see table 2.12 of this paper).

In the early years of the 21st century, cross-border trade was hampered by the many protectionist measures that the Uzbek authorities imposed. From 2009, border crossing became even more difficult, causing a decline in trade between Uzbekistan and Kyrgyzstan, aggravated by serious political unrest in Kyrgyzstan in 2010 (Laruelle, 2013).

At the same time, the analogous nomenclature of exports, the informal regime of clan politics, the different models of economic development, and transport isolation of the poorest countries of the region undermine the interaction between the republics of

Central Asia and excludes the formation of a regional trade and economic block in the region.

Moreover, the political disagreements between the leaders of some countries, in particular the personal rivalry between the Uzbek and Kazakh presidents, who have been in place since the years of perestroika, and who want to be granted the status of “first among equals”, has been a major challenge for regional cooperation in Central Asia.

Due to unresolved border issues, customs barriers and complex inter-state relations, a considerable part of the turnover belongs to the “shadow” economy, which generates corruption and contributes to the appearance of organized criminal activities.

Laruelle et al (2013, p.117) asserts that “while it may seem logical in the light of the region’s economic specializations that priority be given to major external actors, the absence of a regional market has drastically impeded the economic capabilities of Tajikistan and Kyrgyzstan, and weighs on Kazakhstan, Uzbekistan, and Turkmenistan in the critical areas of food security, energy security, and water management”.

The Central Asian states have never displayed a great eagerness for collaboration. All previous attempts within these states to form a regional intergovernmental coordination structure were unsuccessful. The contradiction between the countries of Central Asia always appeared stronger than the desire to cooperate.

External actors within integration projects such as the Commonwealth of Independent States (CIS), the Shanghai Cooperation Organization (SCO), the Eurasian Economic Union (EEU), the Collective Security Treaty Organization (CTSO), some Western investment projects and others, determine the main regional cooperation mechanisms. China and Russia are the countries most involved in regional integration in Central Asia.

Today Russia offers the countries of Central Asia the economic integration model of the Eurasian Economic Union, which operates through supranational and intergovernmental institutions, and is based on the model of the European Union. For Kazakhstan and Kyrgyzstan (members of this organization since 2015), it has become the first supranational agreement since the collapse of the Soviet Union. At the same time, Tajikistan and Uzbekistan are recognized as potential candidates of the EEU and membership negotiations are ongoing.

The EEU is an alternative to Chinese (The Silk Road Economic Belt<sup>72</sup>), American (The Great Central Asia, the New Silk Road Project<sup>73</sup>), European (CAREC and TRACECA) and Turkish (mainly through the ideas of pan-Turkism) integration projects.

On the one hand, the EEU opens to its country-members a wide single market for the free movement of goods, capital, services and people, and provides common transport, agriculture and energy policies, with provisions for a single currency and greater integration in the future. On the other, the EEU puts Central Asian states in front of a hard strategic choice that limits the multi-vectoral model of their foreign policy behavior.

This integration union raises increasing concerns for the other strategic players in the Central Asian region, especially with regard to the prospects of the implementation of the Chinese model of a free trade zone within the framework of the SCO (Dadabaeva et al, 2014).

Overall, in the near future the different integration projects in the region could have a significant impact on regionalization and further political and economic development of the Central Asia states. Success by any of these political and economic initiatives will largely depend on the extent to which concepts put forward by external actors coincide with the present reality in Central Asia and the interests of the leaders of the region's countries.

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<sup>72</sup> <http://www.caspiana.org/2014/05/11/osobennosti-novoj-strategii-kitaya-v-otnoshenii-centralnoj-azii/> Особенности новой стратегии Китая в отношении Центральной Азии Caspian (Features of the new Chinese strategy for Central Asia). Caspian Bridge – Information analytical Center. May 12, 2014.

<sup>73</sup> <http://journal-neo.org/2015/04/27/rus-amerikanskaya-strategiya-dlya-tsentral-noj-azii-knut-i-pryanik> US Strategy of Carrot and Stick in Central Asia. Electronic analytical journal New Eastern Outlook 2010-2015. V. Panfilova. April 27, 2015.

## Conclusions

For Central Asian states, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, which emerged after the collapse of the Soviet Union the transitional post-Soviet period came to an end, but they are still in the process of transforming their systems towards a democracy and market-oriented economy. After almost twenty-five years of independent existence, they have become differentiated in their political and economic development levels and models. Nonetheless, the CAR and its countries today are characterized by growing complexity and uncertainty determined by a number of factors.

1. The borders and national identities artificially formed in Central Asia in the Soviet era and which were preserved by the new successor independent states in the post-Soviet period have led to ethnic controversies related to water and land distribution and have caused reciprocal complaints between the states across the region. The unresolved border issues are a background for the unpredictable and often uncontrollable movement of people, smuggling goods (weapons and drug trafficking) and diffusion of conflicts. The instability in the states of the region is exacerbated by the policy of ethno-national self-determination and the repression and persecution of Islamic activists conducted by incumbent presidents to legitimize their authoritarian regimes.

2. Despite establishing a complete set of democratic institutions, none of the post-communist Central Asian countries has ensured the functioning of them or has solved the problem of political stability. The stabilizing capacities of the clan-based super-presidential authoritarian regimes (many of the incumbent presidents are the former members of the republican Communist parties), which was achieved in the early stages of independence, no longer correspond to the current challenges and threats of the Central Asian states, nor to the development prospects of the entire region. The absence of an institutional mechanism for leadership succession only increases systemic contradictions, and leads to political crisis and a new phase of struggling among elites for the redistribution of power and property.

3. The break of mutual economic ties between the former Soviet republics and the impact of transformational shocks have led to deindustrialization caused by the removal of high-tech production and industries with high value added from the production structure of the Central Asian economies. The adoption of the new raw material and labor



export-oriented models of economic development in the post-Soviet period has not provided prosperity for society in Central Asia. The involvement of the state in the economy has led to the inequitable distribution of national wealth for the benefit of individual clans and ruling elites, a large non-observed economy, and corruption. A very low standard of living for a considerable part of the population has become a characteristic feature of most of the Central Asian republics: some of them are the poorest countries in the post-Soviet space. Rapid population growth aggravates the problem of unemployment and increases social tension. The immense migration of the working-age population causes high dependence on remittance flows.

4. The deepening specialization of exports of raw materials driven by the demand from the major industrial economies has increased the dependence of Central Asian economies on a limited number of foreign markets that significantly heighten export risks from external shocks for the region. Geo-economic contradictions between external actors for the resources of the region create uncertainty connected with the direction of export flows and hinder economic development of the Central Asian states. Foreign direct investment provided mostly in the form of loans firmly consolidates the raw materials niche of the region in the global division of labor, it makes the problems of repayment of external debts in the long-term outlook highly relevant, and it creates favorable conditions for the establishment in the CAR of “external administration”, most probably from China.

5. Currently, the CAR is not a politically and economically consolidated region. Intra-regional interaction among Central Asian countries is impeded by a range of factors, including the multi-vector foreign policy, disagreement between the leaders of some countries and analogous nomenclature of exports. Further fragmentation of the region could lead to a situation in which it ceases to exist as a subject of world politics, and most of its states would be attracted to other political and economic centers. The issue of the disappearance of the CAR within its present borders constantly arises when competing with other integration projects supported by external actors.

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