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Central Asia after Two Decades of Independence

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CENTRAL ASIA AFTER TWO DECADES OF INDEPENDENCE

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ABSTRACT: After becoming independent in 1991, the five Central Asian countries pursued differing transition paths from the defunct central planning. This paper analyses the connection between economic policies and performance during the 1990s and 2000s. Performance over the two decades has been determined by resource endowments rather than by policy. International relations, which were predicted to centre on a new Great Game among external powers, have been more muted than anticipated, centring on geopolitics and pipelines, and with a consequence of hampering desirable economic cooperation within Central Asia. Prospects for significant change in the near future are limited because by the end of the 1990s the window of opportunity for policy initiatives had shut and entrenched political regimes had no incentive to sponsor major reforms.

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CENTRAL ASIA AFTER TWO DECADES OF INDEPENDENCE

A striking feature of the five Central Asian countries is that they followed divergent economic strategies after becoming independent in 1991. Despite similarities in culture, history and economic structure, their transitions from Soviet central planning ranged from the most rapidly liberalizing (the Kyrgyz Republic) to the least-reforming (Turkmenistan) of all former Soviet republics. By the turn of the century, when the transition from central planning was essentially completed, the Central Asian countries had created vastly different economic systems. This paper analyses the interaction of economic strategy, institutional change, political evolution and external influences, and their consequences for economic performance.

The end of the second decade since the dissolution of the Soviet Union is a good time for reflection because many developments have taken time to work themselves out. Gradual reform in Uzbekistan was associated with the best GDP performance of any Soviet successor states during the 1990s, and a lively debate sought to explain this phenomenon, but the outcome in Uzbekistan has been less positive in the second decade. The other large economy in the region, Kazakhstan, appeared to underperform in the 1990s, which was ascribed to institutional shortcomings such as pervasive corruption, but in the second decade Kazakhstan has been one of the best-performing economies in the world. The economic performance of the three smaller economies has been less positive. Tajikistan is now one of the poorest countries in Asia with characteristics of a failed state. The Kyrgyz Republic appears to be descending a similar path, despite being praised by many economists during the 1990s for introducing market-friendly reforms. Turkmenistan, despite gross mismanagement under its first President, has more options because of its abundant energy resources, but the nature of the regime remains opaque.

Apart from the differences, some commonalities remain, in particular the establishment of super-presidential political systems under autocratic rulers, obstacles to trade posed by geography (landlockedness), and unwillingness to engage in any serious regional cooperation. Corruption is also rampant, but comparative measures of corruption do not show common patterns of change. The paper aims to balance the impact of unchanging (or hard to change) geographical and cultural constraints against the impact of differing (and changeable) national policies to explain these similarities and divergences of outcome over the first two decades, and to draw tentative conclusions about future prospects and general lessons about the relationship between economic systems and performance.

1. Dissolution of the USSR and the Transition from Central Planning

The five Central Asian countries had no history as nation states before 1992, and during the Soviet era economic policy and development strategies were determined in Moscow. None had anticipated the dissolution of the Soviet Union before its final months, and all were unprepared for the severing of Soviet ties. The unexpected challenges of nation-building were superimposed on the transition from a centrally planned economy, which had begun in the late 1980s but had little influence on Central Asia before the Soviet economic system began to unravel in 1991

All five countries suffered serious disruption from the dissolution of the USSR. Demand and supply networks based on under-valued transport inputs quickly collapsed in the early 1990s. The shift to world prices notionally benefited the energy

exporters, Kazakhstan and Turkmenistan (Tarr, 1994), but in the 1990s they were unable to realize these gains due to their dependence on Russian pipelines. Falling output and rising prices became much worse after the formal dissolution of the USSR removed residual central control over the Soviet economic space (Tables 1 and 2). Attempts to maintain economic links by retaining the ruble as a common currency in 1992-3 exacerbated the problem of hyperinflation and were abandoned by the end of 1993.¹

In the decade after independence, the political leaders cemented their personal power by creating super-presidential regimes, in which the balance of power between executive and legislature was overwhelmingly weighted towards the former. Tajikistan was the only one of the five countries not to evolve peacefully from Soviet republic to independent state under unchanged leadership. The bloody civil war of 1992-3, which reignited in 1996-7, dominated political developments and delayed implementation of a serious and consistent economic strategy, but by the end of the decade President Rakhmonov had constructed a political system similar to that of his neighbours.

The five countries' economies gradually became more differentiated as their governments introduced national strategies for transition to a market-based economy. By the early twenty-first century all five countries had essentially completed the process of nation-building and the transition from central planning. However, the typology of market-based economies varied substantially from the comprehensive price and trade liberalization and extensive privatization introduced in the Kyrgyz Republic between 1993 and 1998 to the non-reform in Turkmenistan.

The Kyrgyz Republic embraced advice from western institutions and advocates of rapid change and, within limits, its president fostered the emergence of the most liberal regime in the region. Prices and foreign trade were fully liberalized and small-scale privatization was completed. In July 1998, the Kyrgyz Republic became the first Soviet successor state to accede to the World Trade Organization. The more difficult areas of transition such as enterprise reform and creation of a market-driven financial sector were less complete, and controversial infrastructure areas such as transport and water remained unreformed (Table 3).

At independence, Kazakhstan appeared to be the best placed among the Central Asian countries. Per capita incomes were substantially higher than those of the four southern countries, and this was reflected in higher education and other human capital indicators. Moreover, the country's substantial energy and mineral resources held great potential; the oil reserves were about to be tapped by the Chevron-Tengiz project under the largest foreign investment agreement in Soviet history. In 1992 Kazakhstan followed Russia's sweeping price reform with fewer exceptions than other Central Asian countries, but as the 1990s progressed Kazakhstan also resembled Russia in the way that privatization created powerful private interests that distorted the reform process (Kalyuzhnova, 1998; Olcott, 2002). By the end of the 1990s Kazakhstan had similar transition indicators to the Kyrgyz Republic, with less complete trade liberalization but a better functioning financial sector and more reformed infrastructure. These two countries were the most successful in stabilizing the macroeconomy, bringing inflation below fifty percent in 1995 and 1996 respectively (Table 2).

¹ The situation before independence and the immediate post-independence period (1992-3) are analyzed in Pomfret (1995). Islamov (2001) and Gleason (2003) provide alternative accounts of the region's economic development during the 1990s.

In Tajikistan the civil war destroyed the planned economy and effectively privatized economic activity without the institutions, such as security of contract, crucial to efficient operation of a market economy. Thus the country scored highly on price liberalization and privatization, but poorly on enterprise reform or competition policy, and abysmally on financial sector reform or infrastructure (Table 3). After the 1997 peace agreement Tajikistan was considered to be a delayed reformer with liberalization of trade and financial sector policies, but institutions remain weak.

Uzbekistan and Turkmenistan are usually lumped together with Belarus as the least-reforming of the Soviet successor states, but there are significant differences between them. Although cautious, Uzbekistan was not a non-reformer. Small-scale privatization and housing reform were undertaken quickly. Macroeconomic stabilization was not an initial priority but, after the collapse of the ruble zone at the end of 1993, Uzbekistan moved purposefully to reduce inflation. Macroeconomic policy in the two and a half years after January 1994 followed standard IMF advice, and relations with the international financial institutions improved over this period. In October 1996, however, despite having made commitments to the IMF to adopt current account convertibility, Uzbekistan responded to falling world cotton prices (Figure 1) by introducing forex controls. The controls were attractive because, together with the state order system for cotton and wheat, they underpinned a non-transparent but large taxation of the farm sector. Expropriation of agricultural rents allowed Uzbekistan to maintain public expenditures without inflationary financing, and was instrumental in retaining a credible social safety net and the highest ratio of education spending to GDP in the CIS. Nevertheless, these benefits came at a high cost, as the controls hindered desirable resource reallocation to actual and potential export sectors and the systemic nature of the rent-extraction system underpinned glacially slow progress on economic reforms after 1996. Uzbekistan's financial sector remained dominated by a state-owned bank and financial repression was severe. In rail transport and in some utilities, the government gradually allowed some market forces to operate. Overall, Uzbekistan became a market-oriented economy, but with substantial government direction (Pomfret, 2000). A key distinction between Uzbekistan and the Kyrgyz Republic or Tajikistan is that Uzbekistan's legislative record is less reformist but its implementation is more effective.

Turkmenistan established the most personalized and autocratic regime in Central Asia, pursuing a policy based on neutrality and economic independence, with minimal economic reform (Ochs, 1997; Lubin, 1999; Pomfret, 2001). The central planning mechanisms, which broke down in the early 1990s, were replaced by a poorly functioning market economy with heavy state influence. President Niyazov (or Turkmenbashi the Great as he later preferred to be called) retained control over resource allocation decisions, which was relatively easy given the simple structure of the economy with its high dependence on energy and cotton exports, but was very inefficient.² Soon after independence he adopted a populist strategy of providing free water, electricity, gas, heating, salt and other necessities up to certain limits intended to include most household consumption, but much of the state revenue went on prestige projects to support a bizarre personality cult and maintaining internal security. An import-substituting industrialization strategy was designed to increase value-added in the energy and cotton sectors, but the textile mills probably created negative value-added (Pomfret, 2001). In sum, the economy was minimally reformed

² Cotton was the main source of rents in the 1990s, but heavy-handed intervention led to falling yields. After 1998, as energy prices began to rise, natural gas exports dominated and provided sufficient revenues to fund the president's grandiose schemes (Garcia, 2006; Global Witness, 2006).

in the transition from centrally planning, and government intervention was cruder and less developmental than in Uzbekistan.

2. Economic Performance during the First Decade after Independence

The people of Central Asia experienced a huge economic shock in the early 1990s, although measuring the exact size of the economic decline both across countries and over time is difficult. The conceptual measurement issues related to the systemic shift from central planning affect our assessment of the entire decade, because measures of, say, GDP which relate a year to a stable base year such as 1989 (as in Table 1), are more useful than the volatile annual growth rates. Moreover, gross national expenditure (GNE) probably fell by more than output in the early 1990s, so that the real GDP estimates may fail to capture the decline in living standards when resource flows from the rest of the USSR were cut off.³ Later in the 1990s there were country-specific gaps between GNE and GDP; the Kyrgyz Republic benefited from substantial capital inflows from multilateral and bilateral official sources, but the other Central Asian countries received little net capital inflow, apart from military assistance to Tajikistan and some direct foreign investment in Kazakhstan.⁴

On top of these general data issues are country-specific measurement problems. Tajikistan was devastated by a civil war, which lasted for much of the 1990s, and even after the 1997 peace agreement the central government did not control all of the national territory. In Turkmenistan, and to a lesser extent in Uzbekistan, old attitudes about information being power, and associated practices of data manipulation or secrecy, persist. The Turkmenistan data have often been queried by the multilateral agencies and are the least reliable in the CIS.⁵

Despite this catalogue of problems, the data in Table 2 represent the most plausible output estimates and the general patterns correspond with other evidence, including casual observation.⁶ The economic decline in Tajikistan was traumatic; by 2000, with a national income per capita of \$180, Tajikistan was poorer than most of

³ The inter-republic flows in the USSR are difficult to measure because the Soviet economy was treated as a single unit and large flows took place within all-Union enterprises. Outsiders estimated the net flow to the Kyrgyz republic in the late 1980s at around a seventh of the republic's gross product (Pomfret, 1995, 72; Griffin, 1996, 19), but Central Asian economists have argued that the net inflow was much smaller or even that Central Asia subsidized the rest of the USSR through Moscow-manipulated transfer pricing (Islamov, 2001).

⁴ Remittances became increasingly important for Tajikistan, but in the 1990s much of the inflow was in cash and not captured in official statistics.

⁵ The figures in Tables 1 and 2 come from national sources and, while international organizations adjust data for definitional consistency, they have no way of correcting undisclosed collection or reporting biases. One discouraging sign about some of the Central Asian data is the large revisions made to the growth rates within a few years of their initial publication, e.g. the EBRD *Transition Report Update* of May 2005 gave Turkmenistan's 2002 growth rate as 8% but by the 2009 *Update* reported in Table 1 this had been revised to 16%.

⁶ Rapid surveys were used to assess immediate needs in the early 1990s (e.g. Howell (1996) on the southern districts of the Kyrgyz Republic) and qualitative methods have been used to conceptualize interactions between social, economic and psychological elements of changes in living standards (e.g. the chapters by Kuehnast on the Kyrgyz Republic and by Gomart on Tajikistan and Uzbekistan in Dudwick et al., 2003). The small and possibly unrepresentative samples make generalization of the results difficult, but the patterns of traumatic economic decline during the first half of the 1990s, especially outside the capital cities, are incontrovertible. The household survey data (analyzed in Anderson and Pomfret, 2003) present a picture of extensive poverty in the mid-1990s.

sub-Saharan Africa or the poorest countries of Asia.⁷ Kazakhstan and the Kyrgyz Republic both suffered substantial setbacks during the first half of the 1990s; both economies began growing after 1995, but they were negatively impacted by the 1998 Russian crisis. Uzbekistan's economy suffered a smaller transitional recession than any other former Soviet republic, and contrary to some predictions it experienced positive economic growth after the mid-1990s.⁸ Turkmenistan's performance is the most controversial, and independent checks on official data are scarce; despite positive GDP figures the country suffered palpable economic decline and increased poverty, but energy revenues and political stability limited the extent of decline.

The five countries' economic performance in the 1990s has mostly been analyzed within the context of over two dozen countries in eastern Europe and the former USSR abandoning central planning within a few years of one another. The eastern European countries as a group outperformed the CIS countries, but whether that reflected superior policies or better initial conditions is difficult to identify.⁹ That is not to say that we learned nothing from the econometric studies. Conflict was bad for growth; countries with civil or interstate wars tended to be slow reformers and had a poor growth record. High inflation is bad for growth, although moderate inflation is less clearly harmful.¹⁰ Although there are debates about the threshold, all transition economies quickly recognized the costs of hyperinflation and, whether they were committed to structural reform or not, they all sooner rather than later attacked hyperinflation with standard monetary policy weapons.

A complement to the econometric work is national case studies. The Central Asian countries offer a natural experiment, with their fairly similar initial conditions and radically different approaches to creating market-based economies. On more detailed investigation, the situation is less clear than this simplified characterization suggests. Initial conditions did vary, ranking by degree of reform is not as straightforward as simple transition indicators suggest, and policymaking has not always been consistent over time.

2.1 Kazakhstan

Despite its advantages, Kazakhstan faced two serious obstacles. It was the only Central Asian country where the titular nationality was not in the majority. In the 1989 census the population was approximately two-fifths Kazakh, two-fifths Russian and one-fifth other ethnic groups. Following the dissolution of the USSR, most of the substantial German population and many of the Russian population chose to emigrate,

⁷ At purchasing power parity the Central Asian countries' incomes are higher. By the PPP estimates of Maddison (2001, 183-5), Tajikistan's 1998 per capita GDP of I\$830 was about the same as that of Haiti or Bangladesh, only Afghanistan had lower per capita GDP in Asia, and in Africa only thirteen of the 42 countries for which Maddison provides estimates had lower per capita GDP than Tajikistan. According to the World Bank's *World Development Indicators 2002*, Tajikistan's 2000 GNI per capita at PPP was \$1090; corresponding figures for the Kyrgyz Republic are \$270 and \$2540 (PPP), for Uzbekistan \$360 and \$2360 (PPP), for Turkmenistan \$750 and \$3820 (PPP), and for Kazakhstan \$1260 and \$5490 (PPP). As emphasized above, care needs to be taken in interpreting the national accounts data, and PPP conversions are even less firmly based.

⁸ Uzbekistan's relatively good GDP performance during the 1990s may in part be a statistical artifact due to fewer under-reported unofficial activities and some overvaluation of the official economy, but this is not the whole explanation (Taube and Zettelmeyer, 1998).

⁹ The econometric literature is reviewed in Pomfret (2002, 90-3) and in World Bank (2002).

¹⁰ The idea of a threshold value beyond which inflation is harmful to growth was popularized by Bruno and Easterly (1998), although their threshold of forty percent now appears too high. Focusing only on transition economies, Christoffersen and Doyle (1998) estimated a threshold of thirteen percent.

and the emigrants tended to come from among the better educated, thus eroding Kazakhstan's human capital advantage. The large remaining Russian population was heavily concentrated in the north and east, close to the Russian border, and posing a potential secessionist threat, which had a powerful political influence. Kazakhstan's president was the major advocate of retaining some form of common economic space with Russia and the national capital was relocated at great expense from Almaty in the southeast to Astana in the centre north.

The second obstacle to fulfilling Kazakhstan's economic potential was connected to the oil sector. The only outlets for Kazakhstan's oil were pipelines through Russia, and Russia exploited its monopoly position by regulating flows and levying high tariffs. Despite many plans for alternative pipelines, the position a decade after independence was essentially unchanged with small amounts of oil being shipped across the Caspian Sea but most still being exported through Russia.

Oil played a key role in Kazakhstan's economic and political development. The privatization program of the mid-1990s led to insiders and politically well-connected people gaining control over the valuable assets. The regime became more autocratic and the system more corrupt. Economic reform stalled in the mid-1990s, and in 1995 Kazakhstan ranked behind both the Kyrgyz Republic and Uzbekistan according to the EBRD transition indices.

Explanation of Kazakhstan's disappointing economic performance over the period 1992-5, when estimated GDP fell by almost half, is over-determined. The initial conditions in terms of resource abundance proved to be negative, because the resources could not be exported at world prices and because of the associated political economy factors. The limited extent of economic reform and crony capitalism also inhibited healthy economic development in the mid-1990s. In 1996-7 Kazakhstan's economy began to grow, but it was hard-hit by the 1998 Russian crisis. Although the crisis itself was exogenous, the contagion effect reflected a relative failure to diversify Kazakhstan's international economic relations away from Russia.

After 1999 the economic situation in Kazakhstan turned around (Pomfret, 2005). The recovery from the 1998 crisis was driven by market forces and by good fortune. A sharp real depreciation of the currency stimulated exports and helped to validate policymakers' understanding of market mechanisms. Recovery of world oil prices, which had stagnated from 1986 to 1998 (Figure 2), reinforced the positive trade developments, while large new offshore oil discoveries and new pipeline routes created unbounded optimism.

2.2 The Kyrgyz Republic

The Kyrgyz Republic was a poor mountainous Soviet republic with few natural resources. Its economy was tightly linked to the Union economy and suffered substantially from the dissolution of the USSR.¹¹ Although the Kyrgyz were in the majority, there was a large Slav minority in the north and a large Uzbek population in the south of the country. The Soviet republic was associated with economic backwardness and conservatism, but a fortuitous combination of events led to the appointment in 1990 of a physics professor as First Secretary.

¹¹ The largest single enterprise, a sugar refinery which accounted for 3% of GNP in 1991, used cane sugar from Cuba as the raw material and this supply link broke down completely. Other large industrial enterprises were part of the Soviet military-industrial complex and also encountered breakdown of their demand and supply chains after 1990.

From 1993 to 1998 the Kyrgyz Republic was by far the most reformist of the Central Asian republics. Whether this was because President Akayev was the most liberal leader or whether he had fewest options is debated. In May 1993 the Kyrgyz Republic was the first Central Asian country to replace the ruble by a national currency, and unlike the other countries this was explicitly part of an economic reform program aimed at curbing inflation so that relative prices could direct resource allocation. The Kyrgyz Republic received the most support from the international financial institutions, and following their standard policy recommendations brought annual inflation down below 50% in 1995. Prices were liberalized, the currency made convertible, and tariffs reduced. In July 1998 the Kyrgyz Republic became the first Soviet successor state to accede to the WTO.

Small-scale privatization also progressed rapidly. In other areas, however, reform was less smooth. Land privatization was delayed until 1998 and, even when accepted in principle, a five-year moratorium on transfer of ownership was imposed. Large-scale privatization also proved difficult in practice, partly due to unrealistic pricing of assets. The only large productive enterprise with a positive output record was the Kumtor goldmine operated as a joint venture with a Canadian company. The Kumtor mine was accounting for a sixth of GDP by the early 2000s, but front-loading of returns to the foreign investor limited the benefits accruing to Kyrgyz residents.¹² Institutional reforms were often impressive on paper, but implementation was poor.

Economic performance was similar to that of Kazakhstan, with a substantial output decline followed by economic growth in 1996 and 1997. Whether this was a better achievement depends on a comparison of the initial conditions, which many saw as less favourable in the Kyrgyz Republic, and on evaluation of the role of foreign assistance. The Kyrgyz Republic was successful in cutting inflation, and yet it ran large fiscal deficits as tax revenues fell and public expenditures were not reduced in line; the general government budget deficit was reduced from a high of 17% of GDP in 1995 but was still 10-11% of GDP in 1999-2000 (Mogilevsky and Hasanov, 2004, 227). The situation was sustained by substantial IMF and World Bank financial aid, which enabled the central bank to limit inflationary financing of the budget deficit, but which led to a rapid build-up of external debt.

The fragility of the Kyrgyz economy was exposed by the 1998 Russian crisis. Although the Kyrgyz economy was less closely linked to Russia than Kazakhstan's economy was, the contagion effects were strong because the Kyrgyz financial sector was weak. Three of the country's four largest banks were liquidated in 1998/9 and banking sector assets fell from \$160 million to \$90 million at the end of 2000, i.e. from ten percent of GDP to seven percent. The apparently extensive financial reforms of the mid-1990s were revealed to be fragile, and this was symbolic of much of the reform structure.

One consequence of the financial crisis was to stimulate a re-thinking of economic policies. Concerns over the country's rising debt burden also contributed to rethinking of the adherence to the policies recommended by the international financial institutions, whose adoption was now seen as having been costly. After 1998, economic reforms were placed on hold for several years, although they began to move forward again in the early 2000s.

Economic performance in the Kyrgyz Republic in the 1990s is difficult to evaluate. Its role as the reform leader in Central Asia led to anticipation of healthy

¹² Kumtor accounted for over two-fifths of industrial output and its share of GDP was 16% in the first quarter of 2001; Centre for Social and Economic Research in Kyrgyzstan, *Kyrgyz Economic Outlook 2/2001*, 9.

growth. That this was not realized could be ascribed to poor initial conditions, poor implementation of reforms, or not staying the course after 1998.

2.3 Tajikistan

Tajikistan shared many of the Kyrgyz Republic's disadvantages, but these were compounded by a civil war in which tens of thousands were killed and half a million people were displaced in the first year after independence. The war fluctuated hot and cold over the next five years until the 1997 peace agreement brought opposition parties into the government. Roads, bridges and other infrastructure were destroyed during the fighting, and much has still not been repaired. Many men left the country either for economic reasons or to avoid the draft.

After 1997 government policies appeared to be fairly liberal. The government courted the international financial institutions and largely followed their policy recommendations. Implementation has, however, been poor, especially in the late 1990s when the central government did not have full control over the national territory. After September 2001 President Rahmonov became more assertive in cleansing the government of opposition figures, with the tacit support of the west which approved of his secular position and mistrusted the Islamic parties, and in establishing government control, but local warlords, outside the formal structure of the government or the pre-1997 opposition, continued to operate on their own account. The years of war and the burgeoning narcotics trade hampered the emergence of civil society.

Economic performance in the 1990s was disastrous. Output fell by two thirds in the early and mid 1990s. Lack of economic opportunity led many men to migrate to Russia in search of work and, because their remittances were largely brought back as cash and unreported, it is difficult to estimate how much this contributed to incomes. Foreign assistance, mainly from Russia, was primarily military aid, which contributed little to the economy apart from leaving Tajikistan with the highest debt/GDP ratio of any Soviet successor state. Although the economy began to grow after 1997, growth from the low base was sluggish.

2.4 Turkmenistan

The Turkmenistan economy, although historically one of the poorest republics in the USSR, was experiencing rapid growth in the final Soviet decades based on cotton and natural gas. The construction of the Karakum Canal, begun in the 1950s, greatly increased the land area under cotton. In the 1980s the natural gas sector was modernized and production expanded rapidly. The shift from Soviet to world prices offered larger terms of trade gains to Turkmenistan than to any other Soviet successor state (Tarr, 1994), but the inherited infrastructure directed energy exports exclusively to the CIS and the monopsonistic buyers quickly ran up substantial arrears.¹³ Turkmenistan eventually addressed the problem by the drastic measure of cutting off gas supply to delinquent customers between March 1997 and January 1999. This is

¹³ The arrears complicated Turkmenistan's national accounts because gas sales were recorded as exports valued at the contract price. The arrears appeared in the capital account of the balance of payments as capital outflows from Turkmenistan, even though the foreign assets being accumulated were worth far less than their face value. The actual accounts were extremely opaque because revenues received from energy and cotton exports went into off-budget funds under the president's personal control.

reflected in the negative GDP growth in 1997, when other countries had begun to recover (Table 1), but Turkmenistan's economic problems run deeper than a simple strategic blip in the late 1990s.

The economy remained essentially unreformed. The central planning mechanisms broke down in the early 1990s, but were not replaced by a functioning market economy. Retaining centralized control over resource allocation decisions was relatively easy given the simple structure of the economy and the relatively easy to monitor revenues from cotton and gas exports, but was very inefficient. The government kept tight control over the farm sector with a system similar to Uzbekistan's state marketing monopoly and with forex controls which were tightened after 1998. Repressive agricultural policies (Pastor and van Rooden: 2000) and poor management led to cotton yields falling by much more than in neighbouring Uzbekistan, and export revenues declined sharply over the 1990s (Pomfret, 2008a). The energy sector also remained under tight presidential control; production declined drastically during the 1990s and little was done to exploit the potentially large offshore reserves (Table 5), but output remained sufficient after 2000 to generate sufficient export earnings for the President's needs.

The data for Turkmenistan are the least reliable of any economy in transition and are manipulated for political impact. Nevertheless, it was clear to any observer that economic conditions deteriorated substantially after independence, especially outside the capital city.

2.5 Uzbekistan

Uzbekistan is the most populous of the Central Asian countries and its record since independence is the most controversial. Initial conditions were at first seen as neutral and its economic reforms were cautious, but during the 1990s Uzbekistan was the most successful of all Soviet successor states - including the rapidly reforming and geographically advantaged Baltic countries - in terms of output performance (Pomfret, 2000; Spechler, 2000). The Uzbek government had frosty relations with the international financial institutions, and this may have clouded judgments of what became known as the Uzbek puzzle: how to explain the good economic performance of a lagging economic reformer?

Uzbekistan illustrates the difficulty of determining what are favourable initial conditions. Its major export, cotton, was not under-priced in the USSR, so Uzbekistan did not have the expected terms of trade gains that energy producers like Kazakhstan or Turkmenistan anticipated. On the other hand, cotton was not restricted to fixed transport modes and it could be fairly easily exported to new markets. Up to 1996 this advantage was enhanced by buoyant world prices for cotton (Figure 1). Uzbekistan's second most valuable export, gold (Table 4), was even easier to export at world prices.

Another favourable initial condition was Tashkent's position as the regional capital of Soviet Central Asia. At a physical level, the principle that the Soviet successor states inherited assets in their territory meant that Uzbekistan gained the biggest air fleet and most military equipment in Central Asia. Less tangibly, but perhaps more important, Uzbekistan inherited the most effective administrators in the region. The physical infrastructure, including both the domestic transport network and the irrigation canals crucial to the cotton economy, was relatively well kept up. Corruption was, and still is, widespread in all of Central Asia, but available evidence

suggested lower levels in Uzbekistan than in the other four countries,¹⁴ implying more effective central control and (admittedly by the low standards of the region) a relatively high sense of public service.

The Uzbek puzzle is partly a matter of over-estimating performance, but it has much more to do with under-estimating reform progress and, especially, failure to recognize the key importance of infrastructure and the institutional setting in which markets function. Uzbekistan is not an open society and this may stifle economic progress, but having a relatively well-managed economy helped to minimize the extent of the transitional recession and gradual reform was sufficient to provide the basis for modest but reasonably steady growth after the mid 1990s.

This is not to discount the potential cost of Uzbekistan's clearly misguided policies. The history of regional administration contributed to a stronger sense of independence in policy making. Uzbekistan was sceptical of foreign advice, and unwilling to accumulate foreign debt, so its relations with the international financial institutions were frosty. The scepticism delayed recognition of the importance of macropolicy measures to contain inflation, but this was not critical for long-term development as the inflation rate was coming down by 1996 (Table 2). Much more important was the renunciation of commitments to establish currency convertibility and resort to forex controls after cotton prices declined in 1996. Such controls can have a short-term stabilizing impact, but the substantial long-term resource misallocation costs are familiar from other countries that have relied on similar agricultural taxes (Pomfret, 2000; 2008a). Although the government recognized their cost by the end of the 1990s, the forex controls were a stumbling block to reform, even as the government professed a desire to abolish them. An overvalued official exchange rate enabled the state as monopoly buyer of cotton to extract large rents from farmers (effectively the difference between the world price and the domestic price), sheltered domestic producers of import-competing goods from foreign competition and allowed people with access to foreign currency to profit from the black market. All of these consequences created vested interests who benefitted from the regulated system and opposed reforms and, even after the controls were formally abolished in late 2003, many practical limitations on access to foreign exchange remained. Whereas in the 1990s Uzbekistan had jockeyed with its regional rival, Kazakhstan, for hegemony in Central Asia, after 2000 Uzbekistan fell behind Kazakhstan in terms of economic power and political significance.

2.6 Conclusions

The five countries' differing economic performance in the 1990s to some extent reflected policy choices, but was also determined by resource endowment and in Tajikistan's case by civil war. Attempts to transplant western institutions into a Central Asian setting did not have the anticipated success in the Kyrgyz Republic, because too many other conditions for a successful market economy were lacking. On the other hand, ignoring the advice of economists failed to bring greater economic grief to Turkmenistan and Uzbekistan in the 1990s than to the more reformist Kazakhstan and Kyrgyz Republic. Indeed, good economic management drawing on Soviet-era administrative structures helped Uzbekistan to weather the transitional

¹⁴ See, for example, the results of the Business Environment and Enterprise Performance survey reported in the European Bank for Reconstruction and Development's *Transition Report 1999*. Among the twenty transition economies covered by the 1999 BEEPS, Uzbekistan ranked about fourth for lack of corruption, ahead of several East European countries generally considered to be transition leaders.

recession better than other former Soviet republics or most eastern European countries.

Resource endowment played an important part. Uzbekistan's good performance in the first half of the 1990s was helped by buoyant cotton prices, although the Uzbek government also managed to maintain productivity in the cotton sector better than Turkmenistan or Tajikistan. Turkmenistan also benefitted from cotton prices and from large gas exports, although the revenues were largely used to support a highly personalized regime rather than for the public good. Kazakhstan's disappointing performance, compared to perceived potential in 1992, was in part due to stagnant oil prices before 1998. The Kyrgyz Republic and Tajikistan are both resource-poor and became economically poor, although the latter's economic performance was significantly worse due to civil war.

3. Economic Performance in the Second Decade

In prospect many foreign observers expected the longer term relative economic performance to reward those countries which had bit the bullet of seriously reforming their systems in the 1990s to create effective market economies while punishing those countries which had held back on reform. In practice, the outcome was overwhelmingly determined by whether countries had energy resources or not. Kazakhstan and Turkmenistan both enjoyed rapid growth driven by the rising world price of oil, which had stagnated in the dozen years before 1998, but then increased from under \$10 a barrel to \$140 in 2008, before plummeting to under \$40 (Figure 2). Tajikistan enjoyed fairly high growth rates in 2000-4 as domestic peace was established, but this was from a low base and the country remained very poor. A huge percentage of the male population works abroad, mainly in Russia, and remittances are the country's major source of foreign exchange; although data are sketchy, the share of remittances in GDP is perhaps the highest in the world (Kireyev, 2006). Uzbekistan and the Kyrgyz Republic had the slowest economic growth (Table 1).

A striking feature of the decade 1998-2008 is the lack of further progress in creating an efficient market economy. As measured by the EBRD Transition Indicators (Table 3) there was little change, apart from Tajikistan completing its price liberalization and small-scale privatization, and some banking reform in Kazakhstan, the Kyrgyz Republic and Tajikistan. Turkmenistan was even downgraded on some indicators of its, very limited, transition in the 1990s. The general impression from Table 3 is of a blank slate for reform in the early 1990s to which Central Asian countries responded to differing degrees, but by the turn of the century the type of market economy had been fixed in each country and was now only amenable to limited further change.

3.1 The Energy Boom

The dominant economic influence in Central Asia from 1999 to 2008 was the boom in energy prices. The oilboom was especially important for Kazakhstan whose major Caspian oilfields began to produce large quantities of oil after the turn of the century, as the first independent pipeline through Russia opened in 2001 and the first pipeline to Turkey opened in 2005. Thus Kazakhstan benefitted from both higher quantity and higher prices, as well as being in a stronger position to negotiate transit fees.

Increased oil prices affected demand for substitutes. There is no world market for natural gas but Russian exports to the EU are priced by a formula that includes oil prices, and increases in those prices created pressure to increase the price of Central Asian gas exports to Russia - or for Central Asian exporters to seek alternative pipeline routes with higher long-term price agreements. For Turkmenistan, whose gas reserves are among the world's ten largest, the increase in energy prices was also a boon, even though gas prices were more dependent on long-term contracts with customers on the pipeline network.

Finally, growing energy demand stimulated new projects to harness the huge hydroelectric potential in the mountainous regions of Tajikistan and the Kyrgyz Republic. Any hydro projects are, however, highly controversial because the rivers provide water vital to the irrigated agriculture of Kazakhstan, Uzbekistan and Turkmenistan. In the Soviet era water resources were managed by Moscow, so that water would be released at appropriate times for downstream agriculture and in return the Kyrgyz and Tajik republics would be provided with energy. Since independence there have been no major new hydro projects and the energy/water swap arrangements continue. Nevertheless, tensions remain. In the severe winter of 2007-8 Uzbekistan failed to supply as much power as Tajikistan needed.¹⁵ In the winter of 2008-89 tensions rose between Uzbekistan and the Kyrgyz Republic, driven in part by Kyrgyz plans to develop the Kambarata complex of hydro power stations despite Uzbek opposition.

For Uzbekistan the direct impact of the oilboom was roughly neutral, because the country is more or less self-sufficient in oil and, especially, natural gas. However, the indirect effects were substantial. Tensions with neighbouring Tajikistan and the Kyrgyz Republic escalated over water/energy arrangements as the upstream countries became keener to use their water resources to generate electricity. The economic prosperity of Kazakhstan also posed a challenge to the Uzbek government that had seen itself as the regional leader in the 1990s. Tashkent had been the metropolis of Soviet Central Asia and Uzbekistan with about 25 million people (growing to 27 million in the 2000s) was the most populous of the new independent countries, while Kazakhstan with 17 million people, falling to 15 million due to emigration, had a higher per capita income and a similar GDP to Uzbekistan. After 2000 Uzbekistan's standing relative to Kazakhstan fell substantially. By the mid-2000s thousands of Uzbek workers were crossing the border to work as migrant labour in Kazakhstan, underlining the widening gap in living standards, especially as South Kazakhstan was the poorest part of the country.

Relations with external powers were also driven in part by energy geopolitics. The USA championed the Baku-Ceyhan oil pipeline and Baku-Erzurum gas pipeline, which opened in 2005 and 2006 respectively and reduced Central Asian energy producers' dependence on Russia for transit.¹⁶ China also became a major presence. Chinese oil companies became more active in Kazakhstan (highlighted by the purchase of PetroKazakhstan from its Canadian owners in 2005) and construction of a pipeline to the Chinese border commenced. President Niyazov, who rarely travelled, made a high profile trip to Beijing in April 2006, following which the Chinese National Petroleum Corporation was granted drilling rights in Turkmenistan and

¹⁵ Much of Tajikistan's hydroelectricity is used by a single aluminium smelter that is the country's main source of foreign exchange earnings.

¹⁶ US opposition thwarted significant energy exports via Iran, despite it having the closest access to ocean transport, and security conditions worked against pipelines via Afghanistan to the booming energy markets of South Asia.

construction began on a gas pipeline from Turkmenistan to China. Meanwhile, Russia tried to shore up its monopoly position but was hampered by technical and perhaps capital shortages, and announced pipeline projects languished. An important consequence of this confluence of developments was to encourage cooperation among Turkmenistan, Kazakhstan and Uzbekistan in agreeing routes and transit fees on pipelines that ran through the three countries to China and in negotiating jointly on the price of Central Asian gas exports to Russia.

3.2 Domestic Political Developments

By the early 2000s the presidents had created super-presidential systems, and remained in power by more or less undemocratic means. Opposition was fairly ruthlessly crushed and civil society was slow to emerge. Nevertheless, both the Kyrgyz Republic and Kazakhstan remained relatively open societies, where domestic opposition was vociferous even if operating under duress.

In the Kyrgyz Republic dissension had a regional dimension as opposition centred in the south of the country, objecting to a perceived northern bias of President Akayev's government. After disputed elections in February and March 2005, demonstrations initially in the south and then in the national capital led to the resignation of President Akayev in April. Following the revolutions in Georgia in 2003 and in Ukraine in 2005, this was the first regime change in Central Asia. However, President Akayev, despite resorting to rule by decree and acquiescing in the enrichment of relatives and friends, was always the most liberal Central Asian leader. There is doubt over whether the post-Akayev regime truly represents a new political situation or simply the same political system with different leaders.

In Kazakhstan, the regime remains autocratic and dissent is punished, but the president is facing growing pressures for accountability of himself and his entourage. Corruption scandals undermined the government, especially the "Kazakhgate" affair associated with a concealed Swiss bank account into which President Nazarbayev reportedly deposited over a billion dollars in oil revenues and which is the subject of inquiries by US prosecutors. The opposition has been led by powerful political figures who have defected from the government, often in response to the centralization of power in the President's family, and by businessmen, who gained from the 1990s privatization and now want to strengthen the rule of law in order to protect their gains. The "New Kazakhs" opposition became more open in late 2001, and the government responded harshly in 2002, but the subsequent stand-off reflected the strength of the opposition. After the Ukraine elections of December 2004, Kazakhstan's government again reacted harshly, closing down one of the main opposition parties, but the situation remained fluid. In the December 2005 election Presidential supporters fixed the ballot to record over 90% support for the incumbent, which was especially disappointing because indicators of public opinion suggested that in the booming economic conditions President Nazarbayev would have won a fair election. Nevertheless, despite the undemocratic and ruthless methods used to maintain power, Kazakhstan's political contest has been largely non-violent.

Political opposition has been more violent in Uzbekistan, and has accentuated border tensions. After a series of assassinations of public officials in 1997, the Uzbekistan government arrested hundreds of people in a 1998 crackdown. In February 1999 five bombs exploded in downtown Tashkent, killing several people and injuring over a hundred; the biggest one outside the Cabinet of Ministers building was apparently targeted at the President. In August 1999 some 650 gunmen from the

Islamic Movement of Uzbekistan (IMU) were caught entering Uzbekistan, and attempts to bomb the insurgents' bases hit the wrong targets, killing several Kyrgyz civilians and Tajik cows and undermining Uzbekistan's reputation for military effectiveness. Following several sketchily reported episodes of violence in Namangan and Fergana, the most dramatic events in the Ferghana Valley occurred in Andijan in May 2005. The details are disputed, but a large demonstration in the central square was fired upon by troops leaving hundreds of people dead. The Andijan events clearly signalled the will of Uzbekistan's government to use force to put down dissent.

Turkmenistan, the most repressive regime in the region, faced the first succession due to natural causes when Turkmenbashi died in December 2006. Gurbanguly Berdymukhamedov became acting President, and in the February 2007 presidential election Berdymukhamedov won almost 90% of the vote. In the remainder of 2007 he consolidated his power, operating a super-presidential regime similar to that of his predecessor. Although the change of president fuelled anticipation of policy change, in Berdymukhamedov first two years publicized changes were largely cosmetic and serious economic reforms minimal.

4. The International Context¹⁷

Before 1992 Central Asia was part of an integrated economic space. Despite many agreements to strengthen the Commonwealth of Independent States (CIS) as an economic zone, there was little implementation and attempts to retain a common currency broke down in 1993. The CIS as an organization floundered in 1992-4 as Russia chose to act unilaterally in regional conflicts in the Caucasus and Moldova, and more or less unilaterally in Tajikistan, and as economic issues were pushed into the background. By 1996 over half of the five Central Asian countries' foreign trade was outside the old Soviet area.

During 1992 the Central Asian leaders were primarily concerned with nation-building. Accession to the United Nations, the International Monetary Fund and the World Bank provided an external dimension to national sovereignty. The five countries also joined the Economic Cooperation Organization (ECO) and various non-economic regional organizations in 1992, largely as a statement of their independence from the Soviet Union and as an assertion of their distinctive non-Russian Islamic culture, but they made no substantive concessions of national policy autonomy in participating in any regional organization. ECO, which includes all of the non-Arab Islamic countries in Asia west of India (Pomfret, 1999), has been largely ineffective.¹⁸

During the mid-1990s Russia attempted to re-establish its influence over Central Asia. Faced with a delicate ethnic balance between Kazakhs and Russians, President Nazarbayev of Kazakhstan tried to deflect the impending Russian dominance into a more cooperative structure by promoting a Eurasian customs union. Tajikistan, which was dependent on Russian military support during the civil war, and the Kyrgyz Republic followed this lead. The Kyrgyz Republic was, however, more

¹⁷ This section draws on my contribution to the Asian Development Bank project *Institutions for Regionalism: Enhancing Asia's Economic Cooperation and Integration*. Linn (2004) highlights the process of disintegration in Central Asia.

¹⁸ ECO has three founding members, Iran, Pakistan and Turkey, plus Afghanistan Azerbaijan and the Central Asian countries which all joined in 1992. The Secretariat is in Tehran.

externally oriented and since its 1998 accession to the World Trade Organization with low bound tariff rates completion of a customs union with Russia seems infeasible.¹⁹

Uzbekistan and Turkmenistan were resistant both to Russian regional designs and to falling too much under the influence of multilateral organizations. Although nominally a CIS member Turkmenistan ceased to even provide statistics to the secretariat.²⁰ Turkmenistan, with substantial export earnings from natural gas and cotton, adopted an autarchic political position, seeking United Nations guarantees of its neutrality.²¹ Uzbekistan, by contrast became more prominent on the international stage as President Karimov first sought to portray himself as the region's leader, and then in 1995-6 Uzbekistan became the most prominent regional ally of the USA.²² Concerns about potential Uzbek hegemony pushed Kazakhstan and the Kyrgyz Republic, which also fears Uzbek irredentist claims to its territory, closer to Russia. Kazakhstan, the Kyrgyz Republic and Tajikistan became members of the Union of Five (with Russia and Belarus) and of the Shanghai Forum (with Russia and China).

The August 1998 Russian financial crisis had strong contagion effects on Kazakhstan and, to a lesser extent, on the Kyrgyz Republic.²³ Uzbekistan was relatively insulated from the Russian crisis. Failing to make much progress in establishing a Central Asian community under its leadership, Uzbekistan formally aligned itself in 1999 with the GUAM (Georgia, Ukraine, Azerbaijan, and Moldova) countries, whose *raison d'être* was collective resistance to Russian influence.²⁴ The years 1998-9 saw the division of Central Asia into two opposing camps. In October 2000 the Union of Five was renamed the Eurasian Economic Community.

This division eased in 2000 and 2001 in part due to the incursion of Islamic fighters into the Fergana Valley, presenting a common problem to the three countries whose territory was involved (Uzbekistan, the Kyrgyz Republic and Tajikistan). China played a catalytic role in bringing the Central Asian countries together. In 1997-8 China had been an economic anchor in East Asia and had sought closer relations with the USA, but it gradually came to resent a perceived asymmetry in this rapprochement, which brought little gain to China. After the US bombing of the Chinese embassy in Belgrade in spring 1999, China embraced Japanese proposals for Asian monetary cooperation (which were opposed by the USA) and promoted a more formal successor to the Shanghai Forum. At the June 2001 summit Uzbekistan

¹⁹ A common external tariff at Kyrgyz rates would be unacceptable to Russia, but a tariff structure close to Russia's would impose substantial economic costs on the Kyrgyz Republic and Kazakhstan (Tumbarello, 2005), as well as forcing the former to renege on its WTO commitments. Kazakhstan's WTO application has moved slowly; a draft Report of the Working Party, which typically indicates that the endgame of accession negotiations has been reached, was prepared in May 2005 but completion of the negotiations always seems to be expected "next year". Uzbekistan and Tajikistan also have WTO applications in process, but they are further from completion.

²⁰ Sakwa and Webber (1999) provide a general account of the CIS in the 1990s.

²¹ The UN General Assembly formally recognized Turkmenistan's neutrality in a resolution of 12 December 1995 (Freitag-Wirringhaus, 1998; Werner, 2001). On Turkmenistan's neutrality, see Pomfret (2008b).

²² On occasion only Israel and Uzbekistan voted with the USA at the United Nations, and at the May 1996 ECO summit Uzbekistan's denunciation of Iran was so vitriolic that the summit ended a day earlier than planned. In July 1996 President Karimov was warmly received by President Clinton in Washington DC. For more details of Uzbekistan's evolving foreign economic policies, see Bohr (1998), Pomfret (2000) and Spechler (1999).

²³ The main impact on the Kyrgyz economy was to destroy the banking system, which subsequently became dominated by Kazakh banks.

²⁴ Uzbekistan formally joined the four GUAM countries in 1999, effectively withdrew from the alliance in 2002, and withdrew *de jure* in May 2005.

became the sixth member and the Forum was renamed the Shanghai Cooperation Organization (SCO). Although Russia saw the SCO as a vehicle for its leadership in Central Asia, for the Central Asian leaders, especially Uzbekistan, the SCO was palatable because of China's counterweight. Nevertheless, the regional faultline persisted as Kazakhstan, the Kyrgyz Republic and Tajikistan participated in the Russian-led Collective Security Treaty and Uzbekistan did not.

The events of September 2001 and the overthrow of the Taliban government in Afghanistan provided a major milestone in the region's international relations. The Central Asian leaders, along with those of Russia and China, gave verbal support to the US-led war on terrorism. Uzbekistan and the Kyrgyz Republic went further by providing material assistance such as making airbases available to the US military. These developments upped the international perceptions of Central Asia's strategic significance. Russia, although officially supporting the USA, attempted to reassert its own influence.²⁵

The US-led invasion of Iraq in March 2003 provided a second milestone. It highlighted the possibility that the USA might invade a country not only to rid it of religious fanatics like the Taliban but also to rid it of an autocratic secular regime. Coinciding with growing western criticism of repression in Uzbekistan (and Turkmenistan), this provided a backdrop to a reversal of allegiances in Central Asia.²⁶ Uzbekistan ordered the closure of the US base on its territory in July 2005 (Gleason, 2006), and moved closer to Russia, joining the Eurasian Community in October 2005. This was accompanied by formal dissolution of the Central Asian Cooperation Organization, to which the four Central Asian EurAsEc members also belonged, so that after 2005 there was no specifically Central Asian regional institution and the two main active regional organizations had their secretariats in Moscow (EurAsEc) and Beijing (SCO). Symbolic of the resurgence of Russian influence was the agreement signed in May 2007 by Russia, Turkmenistan and Kazakhstan to build a gas pipeline along the eastern coast of the Caspian, feeding into the Russian pipeline network.²⁷

Even as the realignment to the authoritarian regimes of Russia and China peaked, there were signs that the Central Asian countries wished to maintain a counter-balance. The Kyrgyz Republic paid lip-service to, but failed to comply with,

²⁵ Especially after the expansion of NATO in eastern Europe at the November 2002 Prague summit, President Putin tried to obtain recognition of Russian hegemony over Central Asia and the Caucasus as a *quid pro quo* for his acquiescence in the NATO enlargement. President Karimov of Uzbekistan, however, had a fairly high profile at Prague, meeting President Jacques Chirac and Secretary of State Colin Powell, who praised "the practical actions of Uzbekistan in the international fight against terrorism" (quoted at http://www.press-service.uz/eng/vizits_eng/ve21112002.htm by the press service of the President of Uzbekistan). President Rahmonov of Tajikistan also publicized improved ties with France and the USA, making visits to the two countries in December 2002 as a signal of displeasure with Russia's deportation of Tajik workers. By contrast, on 18-19 February 2003 President Nazarbayev of Kazakhstan, facing US and EU criticisms of his regime's corruption and human rights record, made an official visit to Russia, where he was not criticized for such things.

²⁶ The EBRD decision to hold its 2003 annual meetings in Tashkent highlighted the gap between commitments to democracy and Central Asian realities. The killing of several hundred demonstrators in Andijan by Uzbek security forces in May 2005 was the final catalyst for a break in relations.

²⁷ The ten billion m³ a year pipeline would be in addition to the 50+ billion m³ a year currently flowing to Russia. As a further incentive for Turkmenistan to sign the pipeline contract Russia-connected companies provided capital, e.g. Itera was a lead investor in the \$4 billion development project to turn the area around the Caspian port of Turkmenbashi into a tourist centre. The 2007 announcement, however, failed to pre-empt alternative gas pipeline routes such as that begun from Turkmenistan to China a few months later or the Nabucco project, and the East Caspian project remains a pipe dream.

a Russian and Chinese inspired bid to eject all US bases from the region.²⁸ Kazakhstan also appeared to distance itself from the hard-line authoritarian stance, reflecting its renewed independence from Russia as oil prices soared and non-Russian pipeline routes were coming online. Both Kazakhstan and Turkmenistan, made positive statements about the Nabucco pipeline intended to reduce Russia's dominance of EU gas supplies. Tajikistan, while becoming more dependent on remittances from migrant workers in Russia's booming economy, grew increasingly upset at the treatment of those workers.²⁹ Most importantly, the long-term shared interests of Uzbekistan and the USA reasserted themselves, and in October 2008 Uzbekistan announced its intention of withdrawing from EurAsEc.³⁰ The USA and EU reciprocated by playing down human rights concerns.³¹

The international economic relations of the five Central Asian countries have evolved since independence. Their trade has increased substantially, and been redirected away from former Soviet markets. The long-term counterpart has been adoption of multilateral trade policies, even though all Central Asian leaders, to varying extent, recognize the desirability of regional cooperation, and use regional agreements to signal political allegiance. The early 2000s saw widening fissures, in particular between Uzbekistan and its neighbours, but after the US-led invasion of Iraq there was a rapprochement between Turkmenistan and Uzbekistan towards a Russia which appeared less sensitive about human rights violations than the USA. The most striking features of these changing partnerships is the ongoing influence of Russia, the emerging importance of China and other major economic powers, and the very limited development of ties with regional neighbours with a shared cultural heritage. Many commentators in the early 1990s foresaw a battle between Iran and Turkey for the hearts and minds and markets of Central Asia. Although both have increased their Central Asian ties relative to the Soviet era, neither Iran nor Turkey has yet established a strong economic or political presence in Central Asia.

International economic relations could be seen as a tug-of-war between western influences in favour of more market-driven economies and Russia as a *status quo* influence for limited economic reform. In practice, international economic relations were driven by geopolitical interests, and the only significant economic

²⁸ In February 2009 the Kyrgyz government finally gave the USA six-months notice to quit the base, but this appeared to be a bargaining tactic and indeed a new agreement was signed in July 2009 with no apparent disruption of US operations.

²⁹ A sign of antipathy towards Russian influence was President Rahmonov's announcement in March 2007 that he had changed his name to Rahmon, dropping the Russian ending -ov. He urged other Tajiks to follow his example and return to their cultural and national roots.

³⁰ Although all sides sought to keep the arrangements low-key, by 2009 both Uzbekistan and Turkmenistan allowed refuelling of aircraft and overland transport of supplies for US forces in Afghanistan and humanitarian assistance.

³¹ The Central Asian countries continued to score poorly on international rankings of democracy or human rights. For example, in the Freedom House *Nations in Transit 2009 Report* all five rank among the eight "consolidated authoritarian regimes", together with Belarus, Azerbaijan and Russia. Turkmenistan with 6.93 out of 7 had the lowest score among the 29 eastern European and CIS countries surveyed; Uzbekistan scored 6.89, Kazakhstan 6.32, Tajikistan 6.14 and the Kyrgyz Republic 6.04. On Kazakhstan's record the Report observed that "Notwithstanding its impending takeover of the 2010 chairmanship of the Organization for Security and Cooperation in Europe (OSCE), the Kazakhstani government has not taken a single convincing step towards promoting democratic rule, aiding political liberalization, establishing genuine tolerance, or creating conditions for the functioning of an independent media and civil society". Every one of the five had lower democracy scores in 2009 than their 1999/2000 scores of Kyrgyz Republic 5.08, Kazakhstan 5.50, Tajikistan 5.75, Uzbekistan 6.38 and Turkmenistan 6.75.

element concerned oil and gas pipelines. The shifting political alignments did, however, have an important indirect economic impact in that they forestalled construction of specifically Central Asian regional institutions, which has been a serious shortcoming. Among the issues needing to be addressed at the regional level are trade and transit, energy and water, and perhaps security (UNDP, 2005).

5. Conclusions

When the five Central Asian countries became unexpectedly independent during the second half of 1991, they faced three large negative shocks: the end of central planning, the dissolution of the Soviet Union, and hyperinflation. All experienced a transitional recession; output fell, inequality widened and poverty increased. Their national experiences, however, diverged during the first decade after independence, both with respect to the type of economic system created and with respect to economic performance.

By the turn of the century, the national economies had changed substantially from the centrally planned economy of the Soviet era and all were in one form or another a market-based economy. The Kyrgyz Republic and Kazakhstan had liberalized prices and trade policy and moved much further on privatization than the more regulated economies of Uzbekistan or Turkmenistan. In Tajikistan prices had effectively liberalized and small enterprises were privatized in the chaos of civil war, but enterprise restructuring lagged and reform had scarcely begun in the financial sector or with respect to infrastructure.

Expectations that economic performance would be correlated with the speed and extent of transition were not borne out in the 1990s. The Kyrgyz Republic, Kazakhstan and Turkmenistan had almost identical GDP performance over the decade 1989-99 (Table 1), despite the extensive reforms in the Kyrgyz Republic and the absence of reforms in Turkmenistan. Tajikistan's poor performance is readily understandable in terms of the civil war. Despite limited market-friendly reforms, Uzbekistan in the 1990s was economically the most successful of all Soviet successor states, an achievement that can be explained by buoyant world cotton prices up to 1996 and more importantly by the country's relatively good economic management in day-to-day matters.

Expectations that longer-term growth rates would depend upon economic policies have also not been borne out in the second decade since independence. Variations in economic performance during the 2000s were overwhelmingly determined by energy endowments. High energy prices in 1998-2008 powered Kazakhstan's rapid growth, at least until the country ran into a financial crisis in 2008, and also supported high growth rates in Turkmenistan (possibly exaggerated in Table 1) despite poor policies. Meanwhile, Uzbekistan's regulated economy slipped into the low growth familiar from many import-substituting countries of the 1950s and 1960s. The more market-friendly, but resource-poor and landlocked, economies of the Kyrgyz Republic and Tajikistan fared even worse.

All five countries have established super-presidential political regimes, although the degrees of repression are palpably different.³² The post-2000 economic

³² This may complicate the assessments of economic performance in the previous paragraph. The greater liberty in the Kyrgyz Republic underpins a flourishing market culture and the two largest bazaars, in Osh and in Bishkek, cater primarily to Uzbeks; lack of consume choice and extensive bureaucratic allocation in Uzbekistan (and in Turkmenistan) may indicate lower economic well-being fro a given real GDP.

growth may increase pressure for political change, although national security forces still seem to have the situation well under control. Prospects for significant change in economic policies in the near future are limited because the entrenched political regimes have little incentive to sponsor major reforms. In sum, a big unknown with respect to future economic prospects is the domestic political environment, especially in the two largest economies where the succession to Presidents Karimov and Nazarbayev is unclear. Fundamental across Central Asia is the question of whether an autocratic and repressive political regime is consistent with a flourishing market-based economy.

International relations, which were predicted to centre on a new Great Game among external powers, have been more muted than anticipated. During the 1990s the low profile of other powers perpetuated Russian hegemony in the region, even though Russia's outreach was limited. After 2000, and especially since 2005, external powers' interest increased. It has primarily focused on energy projects and pipeline routes; inflows of non-energy foreign investment have been minimal. The Central Asian countries have managed to balance competing foreign interests and avoided falling under the dominant influence of a foreign power. An unfortunate consequence of the shifting alignments has been to hamper economic cooperation within Central Asia, which is essential with respect to water and energy, desirable for trade and transit, and perhaps necessary for regional security.

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Table 1: Growth in Real GDP 1989-2008 (per cent)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1999; 1989=100
Kazakhstan	0	0	-13	-3	-9	-13	-8	1	2	-2	2	63
Kyrgyz Rep	8	3	-5	-19	-16	-20	-5	7	10	2	4	63
Tajikistan	-3	-2	-7	-29	-11	-19	-13	-4	2	5	4	44
Turkmenistan	-7	2	-5	-5	-10	-17	-7	-7	-11	5	16	64
Uzbekistan	4	2	-1	-11	-2	-4	-1	2	3	4	4	94

Source: European Bank for Reconstruction and Development *Transition Report Update*, April 2001, 15.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Kazakhstan	-2	3	10	14	10	9	10	10	11	9	3
Kyrgyz Rep	2	4	5	5	0	7	7	0	3	8	8
Tajikistan	5	4	8	10	9	10	11	7	7	8	8
Turkmenistan	7	17	19	20	16	17	15	13	11	12	10
Uzbekistan	4	4	4	4	4	4	8	7	7	10	9

Source: European Bank for Reconstruction and Development *Transition Report Update*, May 2009.

Notes: 2008 = preliminary actual figures from official government sources.

Table 2: Inflation (change in consumer price index) 1991-2005 (per cent)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Kazakhstan	79	1,381	1,662	1,892	176	39	17	8	7
Kyrgyz Rep	85	855	772	229	41	31	26	36	12
Tajikistan	112	1,157	2,195	350	609	418	88	28	43
Turkmenistan	103	493	3,102	1,748	1,005	992	84	24	17
Uzbekistan	82	645	534	1,568	305	54	59	29	18

Source: European Bank for Reconstruction and Development *Transition Report Update*, April 2001, 16.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Kazakhstan	7	8	13	8	6	6	7	8	9	11	17
Kyrgyz Rep	11	36	19	7	2	3	4	4	6	10	25
Tajikistan	43	28	33	39	12	16	7	7	10	13	21
Turkmenistan	17	24	8	12	9	6	6	11	11	9	12
Uzbekistan	29	29	25	27	27	12	7	10	14	12	13

Source: European Bank for Reconstruction and Development *Transition Report Update*, May 2009.

Notes: 2008 = preliminary actual figures from official government sources.

Table 3: EBRD Transition Indicators, 1999 and 2008

	Large scale privatisation	Small scale privatisation	Enterprise restructuring	Price liberalisation	Trade & Forex system	Competition Policy	Banking reform & interest rate liberalisation	Securities markets & non-bank financial institutions	Overall infrastructure reform
Kazakhstan 1999	3.00	4.00	2.00	4.00	3.33	2.00	2.33	2.00	2.00
2008	3.00	4.00	2.00	4.00	3.67	2.00	3.00	2.67	2.67
Kyrgyz Republic 1999	3.00	4.00	2.00	4.33	4.33	2.00	2.00	2.00	1.33
2008	3.67	4.00	2.00	4.33	4.33	2.00	2.33	2.00	1.67
Tajikistan 1999	2.33	3.00	1.67	3.67	2.67	2.00	1.00	1.00	1.00
2008	2.33	4.00	1.67	3.67	3.33	1.67	2.33	1.00	1.33
Turkmenistan 1999	1.67	2.00	1.67	2.67	1.00	1.00	1.00	1.00	1.00
2008	1.00	2.33	1.00	2.67	2.00	1.00	1.00	1.00	1.00
Uzbekistan 1999	2.67	3.00	2.00	2.67	1.00	2.00	1.67	2.00	1.33
2008	2.67	3.33	1.67	2.67	2.00	1.67	1.67	2.00	1.67

Source: EBRD Transition Report Update May 2009 at <http://www.ebrd.com/country/sector/econo/stats/index.htm> - accessed 20 July 2009.

Note: Indicators are measured on a scale from 1 (no reform) to 4, with pluses and minuses, e.g. 3+ and 3- are represented by 3.33 and 2.67,

Table 4: Openness and Major Exports

	Exports/GDP		Major exports
	2006	2007	
Kazakhstan	51	49	Oil, minerals, iron and steel, grain
Kyrgyz Rep	42	45	Gold, cotton
Tajikistan	23	21	Aluminium, cotton
Turkmenistan	72	63	Gas, cotton
Uzbekistan	38	40	Cotton, gold, gas

Source: World Bank *World Development Indicators* at www.worldbank.org (accessed 27 April 2009).

Table 5: Production and Exports of Natural Gas, Turkmenistan 1990-2007 (in billion cubic meters)

	1990	1991	1992	1993	1994	1995
Production	81.9	78.6	56.1	60.9	33.3	30.1
Exports		74.9	46.9	55.7	24.7	22.0
	1996	1997	1998	1999	2000	2001
Production	32.8	16.1	12.4	21.3	43.8	47.9
Exports	24.0	40.0	2.0	10.0	35.7	38.6
	2002	2003	2004	2005	2006	2007
Production	49.9	55.1	54.4	58.8	62.2	67.4
Exports	39.4	43.4				

Source: Pomfret (forthcoming)

Figure 1: World Cotton Prices (Cotlook A Index), Annual Averages, January 1991 to July 2009, US cents per pound.

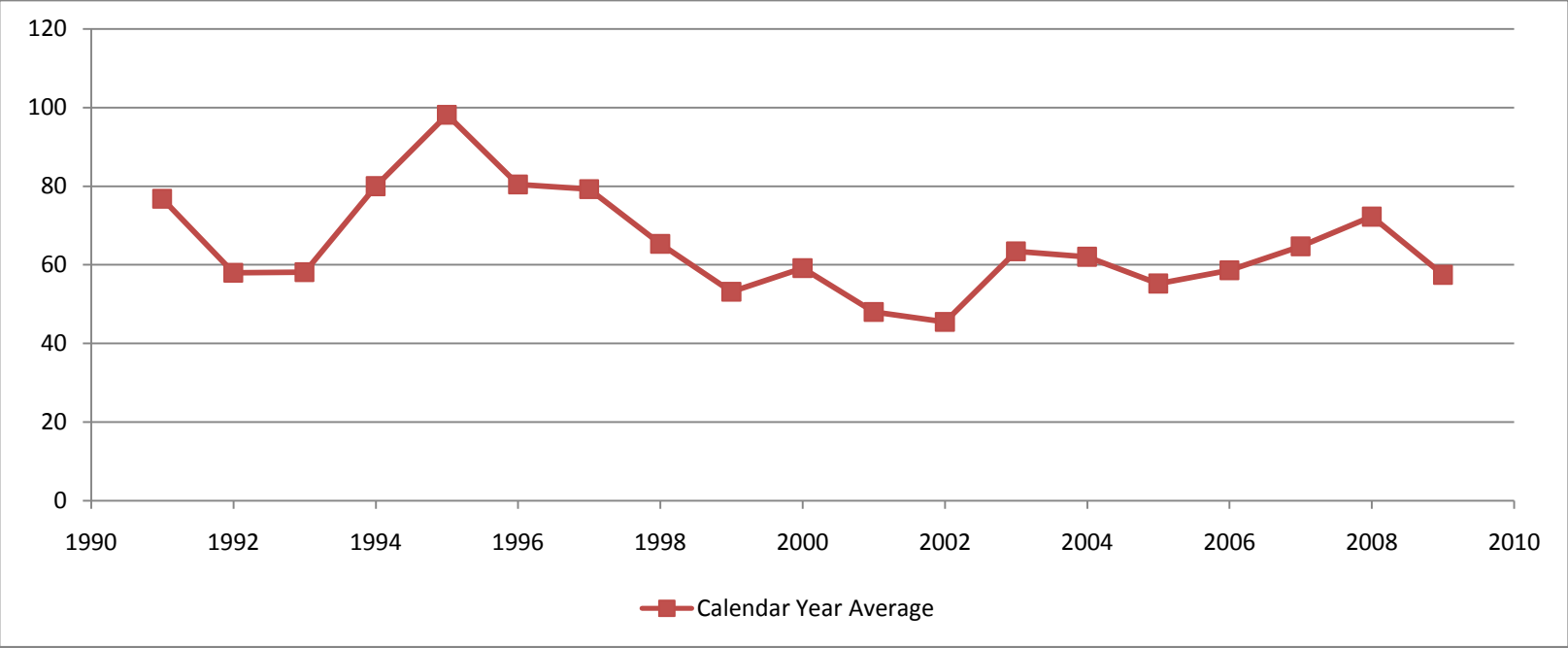


Figure 2: Oil Prices 1987 - 2009, US dollars per barrel



Source: US Energy Information Administration at <http://tonto.eia.doe.gov/dnav/pet/hist/wtotworldw.htm> (accessed 28 July 2009)