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THE EMERGENCE OF CENTRAL ASIA

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EXECUTIVE SUMMARY

The end of the Cold War, which enabled Central Asian countries to gain their independence, has ushered in an era of unprecedented competition among states for markets and capital globally. The change in emphasis from geostrategic concerns to geoeconomic ones are occurring at the center of the international system as well as in the periphery.

For developing countries the days of reliance on superpower competition for aid, economic or military, are over. On both sides of the former superpower rivalry, attempts at shrinking the national security state have led to severe resource constraints. Because the defeat of the Soviet Union also represents the defeat of an economic system, the transition to market oriented economic thinking has swept through the developing world. The rush to liberalize domestic markets, eliminate foreign exchange controls, in short, institute stabilization and structural adjustment programs following the end of the Cold War, is the direct result of the demise of the superpower competition, the failure of communism and state-led industrialization attempts, and competition from other industrializing societies for investment capital, loans, and aid in an age of resource constraints. As a result, many states, from Latin America to the Far East, have been engaged in wide-ranging economic reform attempts that have significantly reduced the role the state played in their economies and have opened their markets to foreign competition.

This is the environment in which the Central Asian states found themselves. With wide differences in resource endowments that range from potentially very rich Turkmenistan (gas) and Kazakhstan (oil and gas) to mountainous and resource-poor Kyrgyzstan, expectations that Central Asia, with its relatively well educated population, resources, and close ties to other regions of the world, would become an important market for the West and strategic area for the Middle East have fallen short. The limited geopolitical significance of Central Asia has been also due to the following factors:

First, Central Asian states have been handicapped by the 70-year Soviet rule. Not only have they suffered from the adverse effects of excessive state control of their economies, but also by the subordination of their economies to the larger whole. Their industrial infrastructure was designed to satisfy a larger entity which centrally planned the production and distribution of their output. With the collapse of the Soviet Union, this centrally controlled mechanism foundered leaving the Central Asian states saddled with inefficient industries which, for the most part, had also lost their markets. Included in the infrastructure problem is the geographical isolation of the region that has made them dependent on Russia to export their products.

Second, compounding the problem for Central Asian states are leadership cadres which, as holdover from the communist period, lack the requisite skills, legitimacy, and ability to mobilize
their populations. It is not surprising, therefore, that with the exception of Kyrgyzstan, the regimes in Central Asia have sought to solidify their hold on power by manipulating the remnants of the Soviet power structure together with the traditional kinship and clientalistic ties that predate Soviet rule. This has not earned them a great deal of credit in the West which has supported and encouraged the post-Cold War trend towards democratization.

Of limited geopolitical significance and, therefore, unlikely to attract much US or European aid, grants or concessional terms on credit, Central Asian states have had to adapt to the exigencies of the new international economic system. In view of their contracting economies, the procurement of external funds, especially foreign exchange, has been critical to the survival of the regimes. Their different strategies in pursuit of this goal have been determined by their respective natural resource and industrial endowments, geographical location and domestic needs. In turn, these strategies have had an impact on the nature of their political system and foreign policy.

The richest and the most authoritarian among them have done the least in the form of economic reform. By contrast, the poorest and, therefore, the least able to generate interest among the more developed countries has done the most to liberalize economically as well as politically. Ironically, those that have reformed the least may end up becoming the most vulnerable to outside pressure and trade links.

Kyrgyzstan, the poorest of the republics and politically the most vulnerable, has opted to liberalize its economic and political system as much as possible. The Kyrgyz leader, Akaev, has used the vulnerability of his state and regime as an asset by gambling that openness would provide him with political and economic support from the outside. Akaev has gone further than anyone in liberalizing prices and trade and privatizing industries. Privatization, in light of the many inefficient and idle industries, is tantamount to a deindustrialization of Kyrgyzstan: a price he has been prepared to pay. Akaev has shown that he understood the rules of the post-Cold War era best and his strategy has been successful: the IMF and other international financial institutions as well major western governments have provided him with the funds that has kept his regime in power.

Turkmenistan, by contrast, despite its claims to the contrary, has relied on the expectation of future earnings from its vast gas deposits not to introduce economic reforms. With its small population base (4 million) and vast reserves of gas, Turkmenistan is potentially the richest among the Central Asian states on a per capita basis. The lack of economic reforms has been accompanied by a paternalistic authoritarian regime that, while not tolerating dissent in the name of nation building, distributes water, electricity, and gas to its citizens for free. The main impediment to the Turkmen leader’s aspirations of maintaining his benevolent authoritarian system has been the dependency on gas pipelines that traverse Uzbekistan, Kazakhstan and, most importantly, Russia.
en route to export markets in the West. Russia has diverted Turkmen gas to non-paying customers such as the Ukraine while keeping paying ones to itself. This has not only led to foreign exchange shortages for the Turkmen regime, but it has also rendered it vulnerable to further Russian bullying on issues such as the exploitation of the Caspian Sea. The Turkmen regime, because it has no other alternative but to export gas (and oil in the future) in order to earn foreign exchange, it has had to actively explore other options including the construction of pipelines through Iran, Pakistan and China.

Nazarbaev’s regime in Kazakhstan has balanced the pressures emanating from its divided society with a gradual opening up of the economy to foreign investors. Nazarbaev has realized that Western investments in his country provide him with not just foreign exchange income and hence improved prospects for economic growth, but also with a political umbrella of sorts against possible Russian irredentist or separatist claims. Nazarbaev despite his pragmatism has been stymied in his efforts to maximize oil revenues. Russia’s insistence on controlling oil export routes and, more importantly, on imposing a “condominium” type arrangement on the Caspian Sea does not bode well in this regard.

With its diversified economic structure, Uzbekistan, economically the state in the most enviable situation, has had to confront the fact that its version of exceedingly slow and gradual reform would not entice foreign investment and interest. Its domestic resource base is too fragile to support an inward-oriented policy. The Karimov regime has also discovered that its reticence to reform and its much criticized human rights abuses have caused Uzbekistan to be neglected by the West in general and the US in particular. As a regime, which perceives itself to be at the center of Central Asia commanding the largest population, strongest economy and military, it was affronted by the indifference with which it has been received in the West.

Even if the regimes appear to have consolidated their hold on power for the time being, the difficulties of adjusting to the requirements of the post-Cold War international order and specifically its economic logic are unlikely to fade away. In the absence of autonomous and strong domestic capability to generate revenues, they will need to maximize foreign exchange earnings in the short and medium term and this fact alone will determine their political orientations in the immediate future. Their alliance patterns will reflect their foreign exchange constraints. Hence, unless they receive strong backing from the West to open up trade routes, they will tend to buckle under Russian and/or Iranian pressure as is presently the case for Turkmenistan in the Caspian Sea status negotiations. Ironically, Turkmenistan, potentially the richest among them, is also the most vulnerable to outside pressure.
NEW COUNTRIES IN AN AGE OF CONSTRAINTS:
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Henri J. Barkey

There probably never is a perfect moment to become independent. From an international political economy perspective, the 1990s cannot be considered the most opportune time for a less developed nation to suddenly emerge onto the world scene. First and foremost, this is a period of a world-wide transformation as the shape and new rules of the new system have yet to be determined. Second, it is a time of constraints; the end of the Cold War competition, the cost of the final arms race, which some believe brought about the demise of the USSR, a prolonged recession in the advanced industrialized states, a slowly expanding trade volume, and competition from many developing and former Soviet-bloc countries for a share of investment capital have severely limited the amount of funds available to new countries to support them during what undoubtedly is a very difficult transition process. This was precisely the environment in which the newly-emerged Central Asian countries, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, found themselves in 1991.

The geopolitical value of the Central Asian republics to the US, to the only remaining superpower, is of limited value and certainly not of the significance that enabled many Third World states to extract strategic rents at the height of the Cold War. In other words, neither the US nor the Europeans are likely to extend aid, grants or concessional trade credits to solidify their bloc interests in Central Asia. The specter of Iranian influence is not sufficiently threatening to Western interests to warrant a great deal of attention. The only exception is Kazakhstan which has successfully parlayed its nuclear arsenal to earn Western credits and consideration. However, such arsenal has a relatively short shelf life: once the weapons are dismantled they eschew their diplomatic usefulness.

In the global market, these countries will have to fend for themselves and compete for the scarce foreign exchange resources they need to maintain their economies. Theirs are economies that have been ravaged by environmental disasters and suffer from a colonial dependence fostered by Moscow. Like many other developing countries, the Central Asian republics will have to sell their natural resources in order to earn foreign exchange. In this respect, Turkmenistan and Kazakhstan seem to be the more fortunate ones of the five. Both of these have significant natural gas and oil deposits for which there is and will be expanding markets in Western Europe, in East Asia’s booming economies, and eventually in Eastern Europe as those economies begin to prosper.
While rich in such mineral deposits, these two Central Asian republics share with their less fortunate neighbors a sense of geographical isolation which makes their quest for trade and trade links dependent on a host of other countries, principally Russia, and hostage to the instabilities of their adjoining regions. For instance, which pipeline project to back or which ports to use for exports and imports are questions which resonate with political risks and dangers.

This article attempts to understand the political economy of Central Asian states and explain their policy choices in the context of the changes in the international system. It starts off by analyzing the structure of the international political economy in the post-Cold War era. It then makes a distinction between state and regime interests. The new entities in Central Asia have yet to develop the requisite institutions and the collective memory of statehood. Therefore, the policies of these new countries reflect the preferences of the narrowly-based regimes ruling them. By focusing on the regimes' sources of external revenue, the article attempts to explain present-day variance in policy choices among the Central Asian states: while Kyrgyzstan has opted to reform its economy and liberalize its politics, Turkmenistan has gravitated to the exact opposite pole. The regimes in Uzbekistan and Kazakhstan have elected to follow gradualist approaches to reform: they differ among themselves in their pace with the Uzbeks having opted for the more cautious approach.

The Political Economy of the Post Cold War World

Two contradictory sets of characteristics have prevailed in the post-Cold War era. On the one hand, as Barry Buzan has suggested, there are four critical changes occurring at the center: a more diffuse or multipolar order; a lessening of ideological rivalries; a prevailing security community among the capitalist societies that provides them with an advantage in confronting threats from and in the periphery; and strengthening of Western norms in societal relations.¹ The record so far on all of these has been rather mixed. While successful in Iraq, the Western powers have been hamstrung in their dealings on Bosnia and only after three years of carnage in 1995 have they finally acted. Similarly, the strengthening of societal norms have not been uniform, especially with regard to human rights.

On the other hand, a countervailing attribute of this new era has been the degree to which countries have been subjected to severe economic shocks that can adversely affect even some of the most well-adjusted of the newly industrializing countries. The collapse of the

Mexican foreign exchange system at the end of 1994 and the resulting outflow of funds from "emerging markets" underline the prevalent instability. Not even the US or other advanced industrialized states have been immune to the wide fluctuations of international markets: witness the decline of the US dollar or the English sterling. It is against this backdrop of an ideologically more cohesive, if somewhat politically fragmented, core and future economic uncertainty and instability that Third-world regimes have to fashion strategies that will ensure their own continuity.

Even assuming the validity of Buzan’s proposition of a transition to a multipolar system at the center, the United States remains the preeminent and, for most, the hegemonic power in the world. This is especially true when viewed from the perspective of the Third world. Japan and Germany’s new economic clout has yet to resonate in the periphery either politically or economically. The US, by contrast, commands the necessary prestige — as evidenced by the cases of Bosnia or Somalia where most countries sought US guidance — military capabilities, and "managerial habits," accumulated since the end World War II, to enable it to continue its leadership role for the foreseeable future.

The US, however, is itself in a period of transition as it tries to be more competitive in the new international economic order. Its vital interests have been reduced. Robert Art lists five interests: "1. protection of US homeland, 2. continued prosperity based in part on the preservation of an open world economy, 3. assured access to the Persian Gulf oil supplies, 4. prevention of war in Europe and the Far East and the preservation of independence of Israel and South Korea, 5. where feasible the promotion of democratic governments, and overthrow of governments engaged in mass murder of their citizenry". Its ability to play the hegemonic role of the 1950s is severely limited by its budget and balance of payments deficits as well as a multitude of domestic problems. Hence, the US is as anxious to, and as aggressive in prying markets open for its products as are Japan or the East Asian tigers. It is less likely to tolerate overt protectionist policies than it is abuses of human rights in economically significant markets. The Clinton administration threatened to impose sanctions on China not when that country trampled on the human rights of its citizens but rather when the pirating of US software and movie industry products assumed a level too imposing to be politically ignored. Clearly where large economic interests are not at stake, human rights considerations will play a greater role.

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State Goals and Preferences of Third-World Elites

There are three general goals that can be ascribed to all state managers: preservation of state boundaries, i.e. survival; political stability or the preservation of the existing regime or rulers; and economic development. While these are distinct goals they are also interlinked: economic development is a crucial ingredient to both political stability and the preservation of state boundaries. War preparation or readiness to defend one's boundaries is dependent in part on a state's ability to generate sufficient resources, financial or productive. State managers have different strategies available to them to achieve the goals described above.

Third world states face enormous difficulties in trying to accomplish any of the above mentioned goals because they are fundamentally weak entities. By weak, I mean that these states, often lacking legitimacy, endowed with poor resources and/or lacking the requisite capabilities to manage their affairs, are unable to mobilize their populace, raise the necessary revenue and set goals that are realizable in the competitive international order that is managed by stronger and more dynamic states. The weakness of these Third-world states is, in part, due to their post-colonial origins, which, as Barnett and others have pointed out, render them vulnerable to territorial challenges from outside (or even from the inside for that matter). In fact, most modern wars have taken place in the Third world and this region will continue to suffer disproportionately from international conflict. The unsuitability of modern state structures to certain parts of the world and the low levels of institutional and economic development enhance the weakness of these states.

This structural weakness, whether international or domestic in origin, is at the root of the precarious nature of the regimes in power in Third World countries. Levy and Barnett argue that despite the permanence of external security threats, state survival is rarely at stake in the modern world while regime survival is. In other words, the total annexation of one state by another, à la Kuwait by Iraq, is not only rare but the resulting international reaction to that occupation further demonstrates how unlikely it is for states to disappear. Regimes, by contrast, easily fall victim to intra-elite conflict. Third-world regimes, therefore, are first and foremost concerned with domestic stability and bolstering their own domestic position vis-à-vis potential challengers. Critical to their existence is the revenue function: as Levi argues, "rulers...

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maximize revenue to the state . . . subject to the constraints of their relative bargaining power vis à vis agents and constituents . . . 

And, therefore, Levy and Barnett argue, it is primarily domestic political economy considerations that influence leaders' definition of state interests.7

Political weakness and vulnerability have been the fundamental source for the behavior of Third-World states.8 During the Cold War they tried to fashion international institutions so as to minimize external shocks and maximize and stabilize the flow of resources to them from the more developed societies.9 Just as external shocks can have a debilitating impact on the regimes' hold on power, stable external resource flows strengthen these regimes vis à vis other centers of powers in society. The end of the Cold War will not alter the basic behavior of Third-world regimes which continue to face a myriad of problems. Regimes seeking to maintain their hold on power will develop alternative sources of revenue to supplement their meager domestic revenue base. The process of supplementing this revenue not only has changed, but the trade-offs involved in the process have dramatically changed. New methods of capital accumulation or revenue generation will lead to trade-offs if they require the liberalization of economic and political structures which, in the process, undermine the existing regimes' hold on power.

Implications for Third World Regimes

The end of the Cold War has had far-reaching implications for Third world regimes. The limited unity of the earlier days, which enabled them to devise joint approaches to the developed world as in the Group of 77, has disappeared. Instead, many of these states have chosen to directly deal with the US and other advanced countries. They have tried to minimize sources of conflict and dispute and some states have even taken the extra step of active collaboration with the US. Argentina, for instance, not only made a modest contribution to the 28-country coalition that faced Iraq, but it abandoned its long-range missile Condor project that had attracted the ire of the US. Alternatively, some states have tried to hitch themselves to economic and political blocs led by the major powers. Chile's wish to join NAFTA, Eastern European countries desire to link up with NATO or Mediterranean countries' attempts at fashioning different forms of associational arrangements with the European Union are some

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4Ibid., p. 4-6.
such examples.

The rush to liberalize domestic markets, eliminate foreign exchange controls, in short, institute stabilization and structural adjustment programs following the end of the Cold War, are the direct results of the demise of the superpower competition, the failure of communism and state-led industrialization attempts, and competition from other industrializing societies for investment capital, loans, and aid in an age of resource constraints. These types of measures do not lend themselves to collective action: each country is on its own as it negotiates with the IMF or other creditors. In fact, measures designed to liberalize markets tend to augment the level of competition among industrializing societies as they simultaneously attempt to break into the markets of the more advanced states. Collective goods in an era of stiff international competition for both resources and markets will only be generated from the further liberalization of trade.

The impulse for liberalization is not solely due to the competition among countries for resources, aid, and capital. Stagnating or declining living standards in an age of mass communications are increasingly difficult to justify to domestic populations especially in the absence of superpower rivalry which provided regimes with such excuses. Economic stagnation or decline will aggravate existing societal tensions while giving rise to new ones. Thus regimes have to be mindful of domestic discontent spawned by the perceived as well as real consequences of economic backwardness. Such discontent may manifest itself in various forms: where ethnic cleavages exist, they may be accentuated. Alternatively, it may give rise to fundamentalist or millenarian types of movements that perform a dual function: they offer solace and services to a disenfranchised population while acting as a primary source of, peaceful or violent, opposition to the regime.

There are also severe domestic costs to regimes attempting to enjoin the general trend toward greater integration and competitiveness. The more protected a market has been in the past, the more difficult it will be to implement the necessary reforms. These reforms entail more than simply reducing budget deficits, which in of themselves are not tasks to be taken lightly, or realigning exchange rates etc. Such reforms demand the development of economic institutions and elites capable of implementing large-scale privatizations, liberalization of labor markets, revamping social security systems, restructuring the public sector and the devolution of state power in favor of civil society groups.

The price to be paid by these regimes for integrating their societies with a rapidly developing and dynamic international market is threefold. First, there are domestic costs originating from the unsettling of well-entrenched vested interests: these range from state bureaucrats, labor unions in protected or publicly-owned enterprises or, where they exist,
protected entrepreneurs. The regimes themselves will be the focus of their discontent and anger. Second, because genuine structural reforms in the long run must, in a fundamental sense, result in a paring down of the state and the strengthening of civil society, incumbent regimes, with their moribund and clientalistic ways, find that they are the primary impediment to change. Hence they are caught between the exigencies of the international system and their fundamental need to preserve themselves. Third, the more integrated an economy is with the international system, the more vulnerable it will be to international shocks especially in the short and medium run. Such external shocks have a profound impact on domestic political structures. Not surprisingly, therefore, regimes will strive, as they did in the past, to minimize such disturbances by carefully adjusting the pace of integration.

Not all regimes face the same type of challenges: in the post-Cold War era one- or no-party states will be subjected to different types of pressures than those with existing solid pluralist traditions or even those attempting to institute them for the first time. The more authoritarian the regime the more threatened the regime will be by measures furthering economic liberalization. The extent to which a regime can stave off domestic and international pressures to liberalize economically will depend on the amount of external resources it can marshal. In other words, regimes with access to foreign exchange resources because they control prized raw materials, such as oil and gas, or have significant alternative income sources, such as workers’ remittances, will have fewer incentives to liberalize than regimes with fewer resources. The more authoritarian the regime is the less likely it will be willing to promote economic liberalization measures. Therefore, four possibilities can be deduced: 1. the more pluralistic the regime and less the foreign exchange availability the more likely it will reform; 2. conversely the more authoritarian and the greater its access to foreign exchange the least likely it will engage in reform. 3. The more pluralistic the regime and the greater its access to foreign exchange resources the greater is its incentive to delay reforms although it will institute them much sooner than its authoritarian counterpart. 4. Finally, the more authoritarian the regime and the less access to foreign exchange the more likely it is to institute the bare minimum of reforms to avoid debilitating foreign exchange shortages.

As the rest of this article will demonstrate, these four categories, ignoring Tajikistan because of the civil war, correspond roughly to the four Central Asian states. The first fits Kyrgyzstan, while the second approximates Turkmenistan and the fourth Uzbekistan. Kazakhstan is the only one for which there is not a perfect fit: it occupies the space between categories three and four.
Central Asian Overview

Central Asian states are not significantly different that many Third World countries struggling with the legacy of colonialism, the ravages of monoculture, and ethnic diversity. They are weakly institutionalized and the regimes' hold on power is buttressed by a combination of sheer brute force and clientalistic or tribal networks. Poorly developed, they are not well integrated with the international economic system.

They differ, however, from most of their cohorts in certain important categories: the first three to be listed are clear handicaps. First, the usual ethnic problems resulting from the arbitrary drawing of borders are enhanced in these new states by the presence of settlers from the former colonizing power. These settlers are ambivalent about remaining in their newly constituted countries. Stalin's demarcation of the borders that was designed to divide the ethnic groups along different political lines, the forcible exile of suspect minorities during the Second World War to Central Asia, such as, Chechens, Germans and others and the waves of Russian, Ukrainian and other settlers from western parts of the Soviet Union under various programs have given rise to a complicated ethnic mosaic in Central Asia.10

Second, these settlers are not the only ones that are ambivalent: the ruling elites of these states, while savoring the fruits of independence, including greater access to graft and corruption, are not leaders of independence movements à la Kenyatta, Gandhi, or Mandela. They too are somewhat nostalgic about the days of the Soviet Empire. As former members of the Soviet nomenklatura, they lack the requisite legitimacy that early leaders of liberation struggles were entitled to upon achieving independence. They do not offer a new vision or set of ideas that will galvanize their respective populations. Hence, they are forced to manufacture such legitimacy in a poorly institutionalized setting where the end result varies from the deification of the ruler, à la Turkmenistan's Niyazov who renamed himself Turkmenbashi, leader of the Turkmens, or thinly-disguised instant-referendums as in Kazakhstan and Uzbekistan with outcomes that would be the source of envy for many Soviet-era apparatchiks.

The same people in charge during the Soviet-era are in charge of bringing these countries into independence and, by the same token, these same leaders who were overseeing a command economy face the daunting task of introducing market-oriented reforms in places

10Ronald Damsreuther, by contrast, argues that "for all of the artificiality of these new nation states they do represent a clear attempt to capture as much of an ethnic group as is possible given centuries of intermingling..." As a result "the new states of Central Asia are potentially more cohesive nations in formation than other post-colonial creations where less attention was given to ethnicity, such as Iraq, Sudan or Zaire," Creating New States in Central Asia (London, International Institute for Strategic Studies, Adelphi Paper no. 288, 1994), p. 14.
where the market existed only in shadows.

A third distinction derives from their geopolitical isolation. Nestled in a corner of the world that makes it difficult to break out onto international markets or community without relying on the former colonial master, Central Asian states must be adept at playing a delicate balancing act between their need to reduce their dependency and maintain reasonably good relations with Russia. On the other hand, Central Asian states seem to confront a geopolitical identity problem. In addition to their umbilical links to Russia, can it be said that they constitute an integral sub-region on their own, or are they part of a larger subsystem stretching from Asia Minor to China and from the northern borders of Kazakhstan to the shores of the Indian Ocean as Djalili argues, or simply an extension of a new Middle East as has Bernard Lewis?11

A fourth difference has to do with one of the few beneficial aspects of Soviet rule: by and large the Central Asians are better educated than most Third world populations and have a significant stock of scientists. Although, the proposed alphabet changes in Uzbekistan and Turkmenistan are likely to temporarily impair the level of education, and the lack of resources have already had deleterious effect on the educational system, Central Asian states will continue to enjoy an advantage in this area for years to come.

Central Asia and the New World Order

The impact of the post Cold War changes on Third world countries was discussed above. How the newly independent states of Central Asia will adapt to the systemic changes depend on both their individual and collective geopolitical as well as economic conditions. This section focuses on the collective factors affecting the future policy choices of these states.

The Geopolitical Squeeze (or the Scramble for Central Asia)

After an existence deeply embedded in the Soviet Union, the five Central Asian states find themselves the object of intense interest by a variety of neighboring and regional states. Just as the leaders of the Central Asian states were more familiar with the workings of Moscow and more acquainted with the former colonial power's foreign policy, the states in the immediate regional environment faced a similar dilemma with regards to Central Asia. They too were more informed about the workings of Moscow's foreign policy and had naturally

viewed Central Asia as simply an extension of the Soviet Union. Hence in the post-independence scramble for the region, the unfamiliarity of the Central Asian leaders with foreign policy was matched by an equally unprepared set of neighboring countries.

The regional states' initial approach to new states of Central Asia displayed a combination of wishful thinking and geopolitical confusion understandable in the immediate post-Cold War era. In effect, each saw what it wanted to see in the new Central Asian states. Turkey imagined itself as a leader of a Turkic world extending from the Adriatic to the Great Wall of China (and perhaps just a bit beyond that too). Turkey could derive strength from these mostly Turkic speaking Central Asian states, hitherto ignored by Ankara. They represented an endorsement of Turkey's continued importance in world affairs despite the disappearance of the Soviet Union. Iran envisaged the development of a Muslim commonwealth of sorts far from meddling Western hands. Increasingly perceiving itself encircled by the US and its allies, Iran could benefit from the strategic, political, and economic depth Central Asia would provide and that Iran needed in its confrontation with the West. India and Pakistan each interpreted the new states and regional order as a potential bulwark against each other's designs while China displayed the anxiety of a multiethnic state which was witnessing the disintegration of a fellow traveler. Even Russia preoccupied with its internal problems, political and economic, at first failed to focus on the region. It assumed that independence for Central Asia was a proforma event that would have few consequences on its dealings with the region and beyond. To all the neighboring powers, Central Asia was above all a land of riches, markets, and of potential riches and markets.

It is true that both Turkey and Iran were, in addition to the former colonial master, Russia, the powers most likely to involve themselves in these countries' future. Turkey by virtue of its close cultural and linguistic ties to four of the republics, Iran, by contrast, because of its cultural affinity to Tajikistan and historical ties to the others, but more importantly as a result of its being a vital communication nexus to the Persian Gulf and beyond had advantages

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12This perception was buttressed by the United States in the person of James Baker, the Secretary of State, who, when on a visit through Central Asia, encouraged the leaders there to emulate Turkey [and not Iran]. Some in Turkey could even imagine Turkey obtaining a permanent seat on the UN Security Council by virtue of its newly found leadership role. Also as one Turkish observer argued, at a time when Turkey was reeling from its rejection by the European Community and the worsening of its Kurdish problem, the Central Asian states represented the only bright light in a singularly bleak horizon. Cengiz Çandar, “Degisimekte Olan Dunyada Turkiye’nin Bagimsizligini Kazanan Yeni Turk Cumhuriyetleriyle Iliksileri,” in Sabahattin Sen (ed.), Yeni Dunya Duzenli ve Turkiye (Ankara: Baglam Yayıncilik, 1992), p. 139
an India, Pakistan and even China did not immediately possess. From a geopolitical standpoint Iran had a great deal more at stake in Central Asia than Turkey. The latter could easily be satisfied with a lucrative and unperturbed commercial relationship, whereas for Iran the region offers a physical as well as a psychological expanse of support. It is not surprising, therefore, that the Turco-Iranian competition for Central Asia attracted a great deal of attention. However, the basis for much of this competition quickly turned out to be driven by factors other than those pertaining to Central Asia directly. The question of Azerbaijan, the mutual distrust resulting from the ideological divide that separates the Turkish and Iranian regimes over the role of religion, and the Iranian mistrust of Turkey as a western ally fueled their competition. In effect, for Iran and Turkey what was more important was to deny complete and unfettered access to the other and, therefore, not appear to be a loser even if the gains were to be of marginal consequence.

If the neighboring states’ initial geopolitical expectations were soon replaced by more realistic calculations, it was because Central Asian regimes took a decidedly careful approach to relationships with powers other than Russia, to which they were still closely attached. It is Russia that looms as the single most important geopolitical question in these states’ future. Also, their classification as Central Asian states notwithstanding, the five new republics are distinct entities with separate visions of themselves and of each other.

Whether occasioned by domestic political pressures, the prospect of continued economic gain or objective geopolitical considerations about the maintenance of security along the former borders, Russian interest in Central Asia dwarfs all other states’ concerns. Unlike the distance between Britain and its former colonies in Asia or in Africa, the geographical proximity of Russia to Central Asia has allowed for the evolution of political and especially economic linkages that are impossible to eliminate or replace in the short term. But it is not just the

13Theodore Karasik points out that the three potential routes offered by Iran as a conduit out of Central Asia are not as easily accessible either. 1. Northern: Tehran-Tabriz-Turkey-Europe. Turkey could be by-passed through Azerbaijan and the Ukraine. There are potential problems with Kurds, Azeris Talysh. 2. Western: Tehran-Esfahan-Shiraz-then to Bandar Khomeini or Bandar Abbas. Iran would need to protect its ports with a fleet. There are problems with building pipelines because of Zagros mountains that rise 10-14,000 feet. 3. Eastern: Meshhed-Birjand-Zahedan-Chah Bahar (natural harbor). A well developed transportation system does not yet exist. This route would pass through the Dasht-e Kavir and Dasht-e Lut deserts. Problem here is Baluchi separatists. Azerbaijan, Central Asia, and Future Persian Gulf Security (Santa Monica: RAND, 1992), pp. 46-47.

year legacy of control and the resulting economic linkages that explain present day Russian preponderance in Central Asia. Rather, Russian influence results from a combination of the past with Moscow's decision to be actively involved in the region. The existence of large Russian-speaking communities all over Central Asia in an ironic sense has made Russian decision makers hostage to developments there. Should ethnic conflicts erupt in any of these new states, Russia will find itself deeply embroiled in adventures it can neither afford to shoulder nor ignore. Already, its 201st Motorized Rifle regiment, together with primarily Uzbek units but also with contingents from Kazakhstan and Kyrgyzstan, has taken an active part in the Tajik civil war that pits the former communist leadership against an opposition composed of Islamic, democratic and ethnic groups.

Economic Issues and other Problems

The Central Asian states face three distinct but equally formidable sets of economic problems. The first is how to effect an orderly and yet rapid transition from the existing planned and state-run economy to a more competitive market economy. The second problem facing these countries is the extent of their integration with one another and with Russia and other states of the former Soviet Union (FSU). The third is geopolitical: how to get access to international markets from their isolated and landlocked geographical location. There are two other related sets of problems that need to be addressed. These are environmental degradation and the use and distribution of water resources.

Problems of Economic Transition

Although the dismal failure of the Soviet-imposed economic system, and the attending problems of production and distribution it has fostered, have generated a compelling reason for reform in Central Asia, the fact remains that these countries are poorly equipped to undertake such changes. Experience from around the globe demonstrates that transition to a real competitive market economy is a formidable task even for countries with an extensive private sector which had a history of coexistence with a state-owned sector. The challenge facing Central Asian states goes beyond the simple phasing out of inefficient, monopolistic and out-of-date industries and the privatization of state-owned property ranging from collective farms to factories. Their legal structures have to be revamped and the role of government, its regulatory agencies and enforcement mechanisms have to be redefined.

Among Central Asia's most critical shortcomings are capital, knowledge and time. Capital markets have been tight for developing countries for a number of reasons: the sheer number of prospective borrowers, the memories of the debt crisis of the 1980s and recently the impact of the December 1994 Mexican debacle that led to a flight of portfolio capital from
emerging markets. Central Asia has the added burden of having to compete for funds with former Soviet states from a position of relative obscurity. Russia's decision to assume all the liabilities and assets of the former Soviet Union, the so-called "zero option" which effectively provided the Central Asian states with a clean slate, does not make it any easier for these countries to borrow on international markets; debtors, ironically, have greater leverage on creditors than do states without debts. Market economies do not develop overnight; time is an essential ingredient to learning how markets operate, the understanding of concepts of exchange and private property and the development of values associated with the market. The imposition of the Soviet system in Central Asia occurred at a time when the populations of this region had only acquired a rudimentary knowledge of the institutions of the market economy. In other words, compared with Hungary, the Czech Republic or even Russia itself, the economies of Central Asia were pre-capitalist at the time of incorporation into the Soviet Empire. Therefore, despite the numerous Soviet-era industrial edifices, theirs is a sketchy understanding of basic industrial know-how that other Soviet-ruled areas take for granted.

This absence of a shared set of market-related values and institutions is further accentuated by the fact that independence was not accompanied by a radical change in the ruling elites. They, in turn, are the products of the same economic thinking that dominated the Soviet system. Many of the local Communist party chiefs who maintained their power with the onset of independence themselves lack the requisite knowledge of the workings of the private sector and market economies. As a result, reforms have been slow and haphazard in coming. In the absence of a commercial or capitalist class, former state managers have stepped into the vacuum using their connections and access to obtain the lion's share of lucrative "private sector" contracts. Privatization benefits first and foremost the nomenklatura which transforms itself into state-dependent class uninterested in further reforms that can enhance competitiveness.

There are political impediments to the smooth development of a private economy. Where dwellings were privatized or their titles transferred to their occupants for very modest sums, Russians and other non-titular nationalities intent on emigrating sold them on the open market.

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15 For an interesting diagnosis of the capital crunch from the perspective of an investor in Central Asia, see the comments of Yosef Maiman in the proceedings of Avrasya Ekonomik Isbirligi Konferansı (Eurasian Economic Cooperation Conference) (Ankara: Türk İsbirliği ve Kalkınma Ajansı, 1993), pp. 73-78.

16 William R. Cline demonstrates how the "zero option" is potentially very advantageous to Russia because it allows Moscow to leverage its debt for future credits assuming it continues to make progress along the route to trade and financial liberalization, see International Debt Reexamined (Washington, DC: Institute for International Economics, 1995), pp. 348-360.
and procured significant profits that were then used to finance their new life in other CIS states. The resulting loss of capital has severely curtailed the little enthusiasm there was to privatize land.\textsuperscript{17} Instead the respective governments have opted for issuing restricted leases that do not entitle the holder to sell them on the open market.

\textbf{Integration with the Former Soviet Union}

Another aspect of the Soviet legacy includes a high level of economic and industrial integration between the states of the former union. Traditionally the poorest region of the Soviet Union, Central Asia was made even more dependent on the center by crisscrossing economic ties. The dependency relationship took different forms: on the one hand, it had a purely colonial aspect to it. The imposition of a cotton monoculture on vast areas in present day Uzbekistan and Turkmenistan at the expense of other crops or forms of cultivation disrupted traditional economic patterns and consumed a disproportionate share of the region’s labor force. For instance, in Turkmenistan cotton cultivation accounts for 50 percent of the arable land and for 60 percent of total agricultural production. Yet, Turkmenistan imports 65 percent of the grain it consumes as well as 45 percent of its milk and dairy products and 70 percent of its potato needs.\textsuperscript{18} Cotton production did not lead to the vertical integration of the region’s economies: while some of the machinery for cotton cultivation was produced locally, textile production was kept outside the region: if by 1980 “cotton constituted 65 percent of the gross economic output of Uzbekistan, consumed 60 percent of all of Uzbekistan’s resources and employed 40 percent of the Uzbek labour force... Uzbekistan produced only 5 percent of the Soviet Union’s textiles.”\textsuperscript{19}

Independence has revealed the difficulties with another aspect of the dependency relationship: the integrated industrial structure of the Soviet Union meant that factories in Kyrgyzstan used imported inputs to produce finished or intermediate goods for all of the republics of the union. With the collapse of the Soviet Union, large industrial enterprises have found their markets disappear while their in-built inefficiencies has kept them from finding alternative markets for their products. In turn, this has forced massive layoffs or the idling of workers while continuing to pay their salary. Either solution has its attending risks and costs:

\textsuperscript{17}There is a nationalist bent to this issue as well. In the case of Kazakhstan, land privatization would penalize those ethnic Kazakhs who had been forcibly exiled during the Soviet era and have yet to return to their “ancestral home.” The immediate privatization of land could deny them access to choice properties which presumably would be divided among present-day residents, Kazakhs and Russians alike.


lay-offs can cause political agitation whereas maintaining bloated factory production lines cause inflation.

The interdependence extends to Central Asian states as well. The Soviets built the regional energy and commerce infrastructure so as to forge links between the republics. States received subsidies from the center while at the same time their products were traded by the center at unrealistic prices. The crisscrossing subsidies, transfer payments and inadequate pricing mechanisms have resulted in many enterprises being unable to determine the cost effectiveness of their operations and for these countries’ balance sheets to reflect unrealistic statistics.

Interrepublican trade levels, as a result, are high. For instance in 1991, 60 percent of Kazakh exports went to Russia while 85 percent of Kazakh total foreign trade took place with CIS countries. By contrast only 9 percent of its exports and 12 percent of its imports went to non-CIS countries with China being the largest single trading partner. The Kazakh example is typical of the other Central Asian countries.

The contraction of economic activity following the break-up has had an unintended byproduct: because they constituted the bulk of the workforce in some industries of Central Asia, Russians and Russian-speaking groups have been disproportionately hurt by the ensuing downsizing. Where Russians have elected to migrate back to Russia, as in the case of the military enterprises in the north of Kyrgyzstan, the impact of the decline has been softened for the titular groups. Elsewhere where they have stayed, this development has accentuated ethnic divisions. Similarly, the general economic decline and the elimination of the subsidies from Moscow have served to underscore the deep regional divisions that often reflect ethnic and kinship differences.

**The Burden of Geography**

Geography puts a severe burden on the future development of Central Asia. The physical distance from potential trading partners is accentuated by the poor communication links and the general orientation towards Russia. Oil and gas pipelines and primary transportation networks were designed to integrate the region with Russia rather than any other adjoining region. Alternative trade and transportation routes have numerous drawbacks: as the ongoing negotiations to transport oil from Kazakhstan and gas from Turkmenistan to Western markets


21Indeed, Moscow’s fears of increased migration from Central Asia back to Russia has even caused it to contemplate investing in “or place orders with plants in former Soviet states in order to give work to Russians in those states,” John Lloyd, “Russia buys jobs to halt migration,” *Financial Times*, April 9, 1994.
demonstrate, whether it is the unacceptability of Iran to the US or the struggle in the Caucasus between Armenia and Azerbaijan, there are many impediments to realizing these goals.

Because Central Asian states were engineered to become integral parts of the larger Soviet political economy, their present infrastructure does not allow them to trade easily with their other neighbors. Their distance, in both actual miles and infrastructural shortcomings, from other markets do not even lend themselves to become centers of low-cost manufacturing for export.

**The Environment and Water Issues**

The cotton monoculture and the general disregard for environmental concerns during the Soviet period has set the stage for a series of crises in the future. The diversion of the region's major rivers, the Amu Derya and the Syr Derya, has caused the Aral Sea to shrink by more than one third, increased erosion and the level of salinity in water supplies, and has led to a rise in temperatures and air pollution. The "waters of the two rivers are responsible for as much as 75 percent" of the Central Asian states' combined agricultural production and "also provide most of the water for drinking and sanitation." There already are acute water shortages and the continued mismanagement of their water resources by the Central Asian states will greatly increase the likelihood of even more severe shortages in the future. To make matters worse, Soviet-era nuclear testing may have contaminated the waters in some of the oil fields in western Kazakhstan, a thousand miles away from the Semipalatinsk testing site.

Turkmenistan's policy to provide water free to every citizen is not only an inducement for waste but has already drawn the ire of Uzbekistan with which it shares the Amu Derya. Water, therefore, will figure prominently in the future international relations of the region. Only Kyrgyzstan with its small population and mountainous terrain has sufficient water resources, a fact not lost on its neighboring and more powerful states. Disputes over irrigated land was at the source of inter-ethnic clashes between Kyrgyz and Uzbeks in 1990 in Kyrgyzstan's side of the Ferghana Valley that led to the death of hundreds of people.

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Explaining the Policy Choices of Central Asian Regimes

As suggested above, Central Asian regimes face a myriad of challenges to their precarious hold on power. In all of them individual leaders with strong clientalistic ties based on clan or past service in the former Communist Party of the Soviet Union have established strong personalistic rule. Cast aside by the disintegrating Soviet Union, they all have had to devise policies that will ensure an orderly transition. While differing in their economic endowments, these countries have similar starting points: they all are still dependent on trade with the CIS and lack a developed private sector. Faced with contracting economies, the Central Asian regimes have been hard pressed to fulfill Levi’s revenue function, that is, generating income from domestic sources. This has forced them to be particularly sensitive to alternative means of funding, specifically external sources. Their economic and political strategies to date have covered the spectrum. The Kyrgyz have introduced the most pluralistic political system as well as the most economically open one. By contrast, Turkmenistan has instituted the fewest reforms. In the continuum defined by these two, Uzbekistan is closer to Turkmenistan than to Kyrgyzstan while the opposite is true for Kazakhstan. The differences in choices among these countries can be explained by the combination of economic and political constraints operating on the individual regimes.

Kyrgyzstan

From an economic standpoint, independence was hardest on Kyrgyzstan. It suffered precipitous declines in production because, historically one of the poorest of the republics with an average per capita income of 70 percent of the all union average, it was also the one with the highest level of integration with the FSU. Intra-union trade accounted for 40 percent of its GDP, whereas, in 1991, exports and imports as a whole amounted to 80 percent and its trade deficits to 20 percent of GDP, respectively. Kyrgyzstan experienced an estimated 42 percent decline in GDP between 1991 and 1994; industrial production itself declined by as

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25Because of the civil war, Tajikistan will not be covered in this section of the paper.
26Nursultan Nazarbaev, Islam Karimov and Saparmurad Niyazov of Kazakhstan, Uzbekistan, and Turkmenistan respectively were the leaders of those republic’s communist parties at the time of independence. Even Askar Akaev, often cited as the only non-communist among them, was a high ranking member of the party although not the actual leader of the party in Kyrgyzstan.
28Ibid.
much as 62 percent and agriculture by 30-35 percent. In the absence of natural resources that could provide the regime with an adequate and stable source of foreign exchange revenues, the Kyrgyz opted for the most extensive and rapid program of economic liberalization. Backed by IMF and World Bank credits, the Bishkek government privatized retail trade, introduced a coupon-based privatization scheme for medium-sized enterprises, and was the first to opt out of the ruble zone by introducing a new currency, the som.

The Kyrgyz reform efforts have produced two important results so far: they have contributed to the lowering of inflation and have stabilized, the currency transforming it into the most stable currency in Central Asia. In the long run, because it cannot afford the existing industrial structure, the privatization of state-owned industries will lead to the deindustrialization of the country and the strengthening of its agricultural and services sectors. One comparative advantage the Kyrgyz enjoy is their abundance of potential hydroelectric power. The initial acceptance of the coupon schemes for privatization, especially in places outside Bishkek, is further evidence that the Kyrgyz accepted the necessity for reform, even though progress along this road has been tarred by corruption and favoritism that has benefited the former members of the nomenklatura.

The strategic decision to reform, especially to abandon the ruble, was not without its risks and costs. Kyrgyzstan's two major trading partners and neighbors retaliated for the surprise introduction of the som; Uzbekistan closed its border and the energy pipeline and Kazakhstan suspended payment on the electricity it imports from Kyrgyzstan. President Akaev was forced to apologize to his Uzbek counterpart and indemnify the latter in hard currency for losses his country had "suffered" as a result of the Kyrgyz action.

The Kyrgyz regime has tried to differentiate itself from other Central Asian counterparts not just with relatively bold economic measures but also with a political opening uncharacteristic to the region. Absent any significant natural resources, this combination of economic and political liberalism has enabled Kyrgyzstan to obtain political support critical to

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30 EBRD, "Kyrgyzstan: Review of Reform Progress," p. 2. The industrial sector, which was 60 percent defense related has not had a single order from Russia in 1994, is imploding.

31 Author interview with official from US privatization company, Bishkek December 14, 1994.


33 There are, however, limits to this pluralism. The leadership has closed down newspapers that have been too critical of its economic dealings and investigated allegations of corruption. The Kyrgyz regime has also been susceptible to pressures from its counterparts in neighboring Uzbekistan and Kazakhstan. The latter have worried about the unfavorable light being shed on their more authoritarian regimes by not just the Kyrgyz example, but also by its freer press which has been as critical of them as it has of its own government, author interviews, Bishkek December 12 and 14, 1994.
the continuation of the financial flows necessary to keep the economy and thus the regime afloat. Foreign political and economic support, by bestowing a degree of international respectability on Akaev, has also helped him consolidate his regime. In effect, Akaev has grasped the rules of the post-Cold War era as well as anyone can. He has managed to transform his willingness to sanction political and economic liberalization into an internationally tradable commodity: this willingness has been the sole basis for the political and, most importantly, financial support from the West and international financial institutions that has kept his regime in place. As one leading member of the Kyrgyz foreign ministry admitted: "the main task of the Kyrgyz foreign ministry is economic policy." 34

The political openness has also helped the regime weather the adverse effects of the stabilization process. The country's two potential fault lines, the north-south economic divide and ethnic differences, risked being further strained by the impact of the economic liberalization policies. Akaev, by opening channels of communication to various ethnic and associational groups, has attempted to construct corporatist structures to coopt the opposition and maintain domestic balances.

Support coming from financial institutions and western governments, however, cannot completely make up for Kyrgyzstan's geopolitical precariousness. Its small size has not deterred its neighbors, including China, from pursuing or maintaining territorial claims against it. Precisely because of the Chinese claims, the Kyrgyz regime has gone out of its way not to antagonize its former colonial master by ensuring that ethnic Russians are not overly discriminated against and seek to return. Russia remains its main insurance policy against potential Chinese encroachment. 35 Ultimately, Kyrgyz economic well being will be determined by events in Kazakhstan and Uzbekistan. If these two giants neighbors prosper, so will Kyrgyzstan. It is this realization that draws the Akaev regime into a common market with them.

Turkmenistan

Turkmenistan stands in direct contrast to Kyrgyzstan. It has plenty of actual and potential foreign exchange revenue sources primarily in its gas deposits. Its political system, with that of Uzbekistan, is the most repressive. With a small population of approximately 4 million and a

34 Author interview, Bishkek December 14, 1994.
desert that occupies 90 percent of the surface area, Turkmenistan in many ways resembles Kuwait, the country it is most often compared to. Although containing numerous tribal divisions, the most severe being the ones within the ruling Tekke clan whose two branches control Ashgabad and Mari. Turkmenistan is not confronted with severe ethnic problems. The Russians and the Uzbeks, who constitute the two largest non-Turkmen communities, have few incentives to move away or secede at present. The Niyazov regime has sought to unify the country and centralize power through a combination of repression and cooptation strategies that discourage the development of civil society groups and institutions. The regime offers its citizens water, electricity and gas free, subsidizes a variety of products and even plans in the near future to offer other staples such as bread free. However, there often are severe shortages of the subsidized commodities.

The Turkmen system is a variation on the rent-seeking economies of the Persian Gulf. Its foundations are being built on external rents that flow through the export of gas. In the Gulf, the regimes have imposed a political bargain on their populations: welfare in exchange for acquiescence. In the process they have sought to buy off not just the relatively small populations that inhabit the area, but also the merchants who dominated commerce before the advent of oil. In the absence of a merchant class and a state that controls 90 percent of economic activity, all the Turkmen regime has to succeed in doing is to obtain the cooperation of the rival tribal leaders by incorporating them into the bureaucracy where they can be simultaneously rewarded and controlled. As Luciani has pointed out, a state accruing rents from outside may experience power struggles and demands from factions, groups etc. to enlarge their share of the rent, they will rarely encounter demands for more democracy. Democracy is not the best means to achieve these particularistic goals. Utterances on democracy by rulers or groups in rentier states are purely tactical.

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36Author interviews, Ashgabad, June 6-9, 1995.
37The first signs of dissent in a long time were observed on July 12, 1995 when a crowd estimated at being between 200 and 1,000 walked down the main street of Ashgabad distributing leaflets calling for free elections. The Economist, July 22, 1995 p. 36; Sannobar Shermatova, “Protesters March in Turkmenistan,” Moscow News, July 28, 1995 and Reuters, July 14, 1995. While the Turkmen government denounced the protesters as “drug addicts,” Moscow News suggested that the demonstration was a way for the Russian government to show its displeasure with the Turkmen regime’s opening up to Iran.
Similarly, statements in favor of privatization and divestiture of state assets must be viewed as tactical. Although Turkmen officials stress their success at privatization, as long as the regime can count on growing foreign exchange earnings it is unlikely to push for reforms that can potentially undermine its foundations. And just in case, Niyazov obtained 99.9 percent of the vote in a plebiscite in January 1994 that extended his term until 2002.  

Critical to the health of the regime, therefore, is the continued flow of gas which provides the necessary foreign exchange to finance imports but also is the major source of revenue for the state. However, unlike the Persian Gulf states that enjoy unfettered access to transportation routes, to export its gas Turkmenistan presently relies on pipelines that traverse Uzbekistan, Kazakhstan, and Russia to reach markets, such as the Ukraine and Western Europe. Not surprisingly, pipeline politics has come to dominate Turkmen foreign relations. The Turkmen regime’s initial expectations were based on the plentiful revenues of 1991 and 1992 (approximately $700 million).  

Disputes over transit fees with Russia reduced exports to Europe from 18.5 billion cubic meters (bcm) in 1991 to 11.3 bcm in 1993 through Russia’s pipeline network. Then Ukraine refused to pay for its imports in hard currency and accumulated arrears of the order of one billion dollars. Under pressure from the US anxious to bolster Ukraine’s sagging economy, Turkmenistan has had to reschedule Ukraine’s debt in exchange for more orderly payments in the future. The Uzbeks have also taken advantage of the pipeline by overcharging the Turkmens for the transit of their gas.  

The unreliability of these gas routes has spurred the Turkmen regime to look for

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41 In a 1992 interview, he clearly stated his goals and preferences: “There is no doubt that we will adopt a market economy, but we will not go for a landslide privatization. While property is seeking its owners, while a national class of entrepreneurs is being gradually formed, while people are learning to be proprietors the state will hold all the resources and assets in its own hands and use them in the interests of the whole society. We did not proceed to smash the old power structures, which could have created a power vacuum and led to disturbances. We opted for a smooth and gradual transformation of existing structures and social relations. Our government resolutely resisted the attempts to promote destructive ideas on the crest of the wave of pseudo-reformism and glasnost. We have received the full support of our people on that score. To be sure, we were called conservatives and partocrats, but we have been proved right.” Official Kremlin International News Broadcast (distributed by Federal News Service), “Interview with President Niyazov of Turkmenistan,” October 20, 1992.

42 These expectations also led the regime in Ashgabad to undertake a large number of grandiose and self-serving construction projects, some of which have had to be shelved with the decline in gas revenues.

43 The Petroleum Finance Company, Pipeline Politics in Central Asia and the Caucasus (Washington DC, May 1993), p. 3. Russia has also directed Turkmen gas exports to non-paying customers while keeping the paying ones in Europe for itself.

44 Author interviews, Ashgabad, June 5, 7 and 8. In fact, the deal with Ukraine over the rescheduling of $764 million debt include a provision that 1995 payments to Turkmenistan would be in the form of 40 percent cash and 60 percent barter. Barter arrangements are easily abused as the value of the bartered commodities can be exaggerated to the disadvantage of the receiving country.
alternatives. Included are a pipeline from the giant Dauletabad-Donmez field near Serakhs across northern Iran into Turkey or one from the Caspian Basin deposits across the Caspian Sea into Azerbaijan and then through Armenia (or Georgia) onto Turkey or across northern Iran into Turkey. However, the war between Armenia and Azerbaijan over Nagorno-Karabakh and the difficulties associated with the mountainous terrain that Georgia represents has delayed these projects. A pipeline through Azerbaijan and Armenia could serve as a positive inducement for both of these warring states to seek a peaceful resolution of their conflict. This also is Turkey’s preferred choice since it is the most economic route and its political byproduct, the end of the Nagorno-Karabakh conflict, is highly prized by Ankara. A pipeline that traverses Iran, but avoids the conflict in the Caucasus, is bestowed with a political handicap: US opposition. Washington’s desire to contain Iran imposes political and economic constraints on not only the countries involved but also on any company seeking to exploit the opportunity, including access to financing.

Russia, by contrast, would prefer the expansion of its gas networks to accommodate Turkmen exports. To dissuade the Turkmen from the Caspian Sea option (as well as the Kazakhs as discussed below), both Russia and Iran are jointly maneuvering to limit access to the Caspian Sea. In negotiations involving the littoral states, Iran and Russia have pushed for a "condominium" type of regime that aims to develop the resources of the Caspian Sea, beyond a narrow territorial band, in common. Azerbaijan supported by the US, has resisted the Russian-Iranian alliance, proposing instead to divide the sea into separate economic zones demarcated according to state boundaries. Russians have used all their bargaining chips, including the threat to close off the Volga river to shipping to and from Turkmenistan, to convince them to go along with their proposal. The threat has partially worked; Turkmenistan has said it supports the Russians in principle. Nevertheless, it has also sought to delay the final decision on the status of the Caspian for as long as possible in the hope that Western pressure can dissuade Moscow.

The sheer physical and political difficulties encountered with exporting to the West has spurred Ashgabad to consider somewhat far-fetched options. The two that are under consideration include a gas pipeline to energy-hungry Karachi through Afghanistan and a

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44 Author interview with high ranking foreign ministry official, Ashgabad, June 7, 1995.
45 "Kabul Threatened," The Economist September 23, 1995, p. 27.
more ambitious and long-term project proposed by the Japanese conglomerate Mitsubishi that would carry gas all the way to the Yellow Sea and Japan.\textsuperscript{47} The rapidly developing Far Eastern economies and a China, which, in 1994, became a net importer of energy, can in the not-so-distant future become lucrative markets. The fact remains, however, that even if the pipeline to Pakistan were to be built quickly, returns on the investment would not be immediate and may take 10 years.

The vulnerability of the Turkmen revenue sources to foreign pressure has forced the regime to carefully balance the different neighboring states’ interests. As one of the highest ranking Turkmen foreign ministry officials argued, "Turkmenistan’s foreign policy is like a bird: one of its wings is Russia and the other is Iran."\textsuperscript{48} As a result, the Turkmens have agreed to the construction of a gas pipeline that would connect with Iran’s own distribution network to be financed primarily by the latter, in exchange for future gas deliveries.\textsuperscript{49} At the same time, Ashgabad has gone out of its way to court Turkey and Turkish business interests, in particular, its construction firms, as a means of balancing Iran’s geographic leverage. The Iranian-Turkish competition in Central Asia and in particular over Turkmenistan has intensified with the imposition of trade sanctions by the US. Although, Turkey nominally continues to support the construction of a gas pipeline traversing northern Iran on its way to Turkey,\textsuperscript{50} Iranian misgivings about the Turkish position has moved Tehran to offer export alternatives, such as Kharg Island on the Gulf, as a means of minimizing possible US interference that any deal including Ankara would convey. Similarly, the often expressed hope of Turkmen officials that their country would serve as a transportation nexus between East and West and a gateway into Central Asia will not be realized anytime soon.

Kazakhstan

Under more domestic pressure than its Turkmen counterpart, President Nazarbaev’s regime has elected to pursue a more reformist economic policy. Well endowed with natural resources, including large oil and gas deposits, Kazakhstan, unlike Turkmenistan, has a much larger population (17 million) and one that is ethnically very divided. The Kazakhs, the titular

\textsuperscript{47}Mitsubishi has completed a feasibility study on this $10 billion project, \textit{International Gas Report}, July 7, 1995. As unrealistic as this proposal may be seen by analysts, it has attracted attention from Exxon and the Japanese and Chinese state oil companies, Steve LeVine, "Way Sought for Pipeline to Bypass Russia," \textit{New York Times} September 9, 1995.

\textsuperscript{48}Author interview, Ashgabad, June 7, 1995.


\textsuperscript{50}See Foreign Minister Erdal Inonu’s statement during his Turkmenistan visit in July 1995, British Broadcasting Corporation Summary of World Broadcasts (hereafter BBC SWB), July 13, 1995.

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nationality, account for only 42 percent of the population while the Russian share is 36 percent with the remaining distributed among a hundred other groups, including Uzbeks, Kyrgyz, Germans, etc.

Russians in Kazakhstan have resisted both the introduction of Kazakh language and takeover of state institutions by ethnic Kazakhs. The displacement of the Russians coupled with the difficulties associated with the economic transformation has prepared the groundwork for the mobilization of disaffected Russians. In addition to such nationalist organization as Lad, the Republican Social Slavic Movement, agitating for the adoption of Russian as a state language and for dual citizenship, the fact that "Russians constitute the majority in provinces of Kazakhstan that adjoin the border with Russia" increases the likelihood of secessionist movements or irredentist claims by a resurgent or nationalist Russia. The Russian leadership in Moscow itself is not immune to the transitional pressures which can result in an activist policy in the "Near Abroad." Hence, to minimize conflict with Russia, Nazarbaev first tried to attach himself to the Soviet Union and then more firmly to the CIS with the active cooperation of Moscow. He has even proposed an Euro-Asian union with supra-national currency for intra-bloc trade, a multi-member investment bank, a multinational parliament and council of presidents. Although these would mean a diminished level of autonomy for Kazakhstan it would also shield it, if left on its own, from making too many concessions to Russia. Still, Russians have continued to exercise a heavy handed approach towards Almaty, especially with respect to the extraction of economic concessions.

The Kazakh regime cannot appear to be too accommodating of Russian interests for fear of alienating the Kazakhs themselves who, for the first time, are tasting the fruits of independence. Although the Kazakh nationalist opposition has been effectively sidelined, sensitivity on key issues remain. For instance, even in the revamped constitution, offered by Nazarbaev to the public in August 1995, the question of land privatization is sidestepped for reasons discussed in an earlier section. Similarly, the population is ambivalent and confused about economic reforms As one survey shows, while most Kazakhs were in favor of "an economy free from direct government administration," some 76 percent favored "the state to

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31Rashid, The Resurgence of Central Asia, p. 256. Figures differ according to sources; Central Asia Monitor reported that Kazakhs and Russians accounted for 39 and 38 percent of the population, respectively, Central Asia Monitor, No. 3 (1992), pp. 39-40.
34For a text of the draft constitution please see BBC SWB, July 20, 1995.
institute or maintain control over prices. In view of the seemingly contradictory pressures, it is not surprising that Nazarbaev has singled out economically successful authoritarian states, such as South Korea and Singapore, as models for his country to emulate.

While the models suggested by President Nazarbaev do not reflect the realities of Kazakhstan, they suggest that his regime’s first and foremost priority is the economic transition. The regime in Almaty from the very beginning eyed its natural resources, the oil and gas deposits and chromium, coal and gold reserves, as the engine of economic growth and provider of foreign exchange. The country’s sheer size and consequent investment needs, population pressures, geopolitical predicament and especially ethnic divisions have necessitated a more open strategy that can readily attract foreign investment and international attention. This became especially acute when soon after the break up of the Soviet Union the Russian leadership made it clear that the former republics would have to struggle on their own. Therefore, in contrast to the Turkmen regime, which could afford to delay any reform attempts for as long as possible, and Kyrgyzstan, which felt compelled to radically open up the economy, Kazakhstan, because of the foreign interest generated, had the option to adopt a gradualist approach. A gradualist approach has its limitations and risks. As a 1993 World Bank report warned, "should Kazakhstan be unable to raise sufficient external financing, its economy will be exposed to a binding foreign exchange constraint on trade."

Because so much of Kazakhstan’s foreign exchange earning potential is, as with Turkmenistan, hostage to geographic restrictions, the politics of oil and gas pipelines have assumed extraordinarily important proportions. There are numerous pipeline projects that are backed by different countries and companies, ranging from Russia to Turkey, Oman, Azerbaijan, Georgia, the US, and a number of European companies. There are as many different routes and final exit points, including the Turkish port of Ceyhan on the

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56 Among the leaders he praised were General Park Chung-Hee of South Korea and Singapore President Lee Kuan Yew, who has "succeeded in raising his citizens' standard of living to the highest level in the world." Perhaps even more revealing were his statements about the Chilean dictator General Augusto Pinochet: "... take General Pinochet — everyone here in Kazakhstan and the Soviet Union used to give him a lot of stick, but as a result of that democratic order they are now leading his country to a good, world standard, and their economy is tied to all other economies in the world," BBC SWB, August 4, 1995.
57 Russia initially excluded the Kazakhs and other Central Asians from a meeting it had arranged with Belarus and the Ukraine. Nazarbaev "immediately engineered a Kazakh-Tatar-Bashkir meeting as a warning to Russia," Ronald Dannreuther, Creating New States in Central Asia, p. 46. Later, Russia literally expelled them from the ruble zone because it had come to the conclusion that Central Asia required too much maintenance and help from Moscow.
58 World Bank, Kazakhstan: The Transition to a Market Economy, p. 39.
Mediterranean and the Russian Black Sea port of Novorossiysk or Georgian ones on the same sea.\(^59\) But as with Turkmenistan, the demarcation of the Caspian Sea will have dramatic impact on the fortunes of the regime. By one estimate alone, the Kazakh portion of the Caspian Sea may contain as much as 3.55 billion tonnes of oil and 2.53 trillion cubic meters of gas.\(^60\)

The largest single foreign venture, the 20-billion 40-year Chevron deal to develop the Tengiz oilfield has already adversely suffered from Kazakhstan's geopolitical confinement. In 1995, Chevron announced that it was scaling down its investments in that oilfield because of its inability to gain access to export outlets. The pipelines in and out of that area are ultimately controlled by Russia which has used its strategic location to manipulate prices and distribution. Russian nationalists may have stirred the pot during the negotiations with Chevron when sudden attention was paid to the highly corrosive elements in the output of the Tengiz field. The "Kuibshev refinery at Samara in Russia which has traditionally handled Tengiz crude" demanded that the corrosive material, the mercaptans, be removed at source forcing Chevron to install new equipment and delaying the signing of the Chevron-Kazakh agreement.\(^61\)

Similarly, the Russian-owned Gazprom, the main operator of the gas pipeline, offered to buy Kazakh gas at prices significantly lower than world market prices.\(^62\)

Solutions to the transportation problems are unlikely to materialize any time soon. This creates a dilemma for the Kazakh regime which must maintain the pace of reforms, even gradual ones, to maintain the interest of world financial institutions and leading industrial powers that is critical to its access to investment funds and capital.\(^63\) This at a time when the process of decoupling from the FSU is still progressing with all the expected costs. A report by the influential Panorama newspaper in Almaty provides some alarming figures to the regime: despite significant improvements on the inflation and budget deficit fronts in the first

\(^{59}\) Each of these pose their own complications. Turkey objects to Novorossiysk because this option would considerably increase tanker traffic through the Bosphorus, one of the more congested sea lanes in the world. This option suffered a setback with the war in Chechnia. By contrast, the Russians fearful of losing lucrative transit fees can apply pressure on a number of the participants. The pipeline to Ceyhan would have to travel through Turkish territory hotly contested by the fighters of the Kurdish rebellion making the investment potentially too risky for foreign investors.

\(^{60}\) Paul Thomas, "Kazakhstan sells its silver."

\(^{61}\) The Petroleum Finance Company, Pipeline Politics in Central Asia and the Caucasus, pp. 6-7.

\(^{62}\) For example, Gazprom offered $8.74 for 1,000 cubic metres compared with a world price of about $80 and gascondensate for only $1.25 a barrel instead of $18, Steve LeVine "US stakes its claim in Central Asia," Financial Times, May 4, 1995.

\(^{63}\) Kazakhstan has received seven World Bank loans amounting to a total of 556.8m dollars since it joined the organization in July 1992, BBC SWB, June 16, 1995.
six months of 1995, the economy continued to shrink, albeit at a slower rate than before, as more and more companies continued to operate at a loss. Wages, amounting to 5.8 percent of GDP, went unpaid in the industrial sector, and capital investments, including foreign and joint-venture types, declined. There still is no end in sight to the economic decline. Even oil production and refining figures were down reflecting some of the problems with transportation.64

In view of the Russian behavior discussed above, Kazakhstan, until it diversifies its export and import routes and sources, will have to hedge its bets by balancing the many different outside interests and pressures. It must keep the Russians engaged, often by allocating them lucrative contracts, and seeking new avenues of economic and political partnership. Meanwhile, the Kazakhs will have to stimulate US and European interest in their projects. For instance, Kazakhstan has tried to find a US company to purchase part of its own shares in the giant Karachaganak gas field it operates with Italian and British firms. US commercial involvement in this project would presumably carry with it the political clout of Washington.65

Kazakhstan is simultaneously taking steps to reduce its dependence on Russia by constructing an oil pipeline from the oil-rich western parts of the country to its refineries in the east previously supplied by Russia.66 China is quickly emerging as its most important convertible currency trading partner, although Kazakhs, just as the Kyrgyz, continue to have serious misgivings about Chinese intentions especially regarding the latter's territorial claims. Nazarbaev's strategy for attracting foreign capital has been successful: 39 per cent of all long-term foreign investments in the FSU have been committed to Kazakhstan and this compares well with the 30 per cent reportedly going to Russia itself.67 On the other hand, in the absence of export routes, Kazakhstan is finding itself forced to sell valuable state-owned assets that could have generated more revenues for the regime in the long run.68 In effect, despite the staggering oil and gas reserves that Kazakhstan is thought to have both on its own territory

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64Panorama, 22 July 95. For a text of the article see BBC SWB, August 11, 1995. According to high ranking Kazakh economic officials, after a 25 percent decline in GDP in 1994, the expectation was that in 1995 and 1996, the economy would shrink by a further 15 and 10 percent, respectively, Reuters, August 17, 1995.

65The relative openness of the Kazakhs has made them more successful than Turkmenistan at attracting Western investments to their energy sector. Whereas many of the major oil and gas companies have sought involvement in Kazakhstan, by contrast, uncertainty about future ownership in Turkmenistan has limited western oil and gas interest to relative unknowns. One such example is the Argentine company Bridas.


67Paul Thomas, "Kazakhstan sells its silver."

68Ibid.
as well as under "its share of the Caspian Sea," time is working against the regime.

On the political front, by joining the nuclear Non-Proliferation Treaty, the Kazakh regime succeeded in obtaining assurances of US political and economic support and with its "commitment" to economic reform it has also blunted criticism from the US on human rights and specifically regarding the April 29, 1995 referendum that extended Nazarbaev's term in office.\(^{69}\)

**Uzbekistan**

Although as authoritarian as Turkmenistan, the regime does not confront the same weaknesses that plague the others. Primarily because its economy is more diversified than its neighbors', it has suffered modest GDP declines that are the envy of the others, including even Russia. Nestled in the middle of the Central Asian landmass, it borders all the states of the region. Uzbekistan not only has the largest population (22 million), but is free of the kind of ethnic problems generated by large Russian minorities, as in Kazakhstan. Its territory includes historically Tajik cities, such as Bukhara and Samarkand, although the Tajiks with 4 percent of the total population do not constitute a politically significant minority. It is the important diaspora Uzbek minorities that provide President Karimov's regime with a greater political reach: some 23 percent of the population in Tajikistan is Uzbek as is almost 13 percent of the Kyrgyz population. The Uzbek regime has also close links with General Dostum, a warlord leading an ethnic Uzbek militia in the Afghan civil war.

Despite its relative geopolitical advantages and with the strongest military force in the region, excluding Russia, the regime in Tashkent does not feel any more secure. From the outset, President Karimov feared the uncontrollable. Afraid that the ideas of the democratic and Islamic opposition in Tajikistan could spread to the Ferghana Valley, one of the richest and, at the same time, most pious regions of his country, Karimov decided to tackle the issue before it reached his borders. In agreement with the Russians and eventually with Russian encouragement, Uzbekistan took an active role in the fight against rebels in Tajikistan and help

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\(^{69}\)Following the plebiscite, in which Kazakhs overwhelmingly approved the extension of his term to December 2000, Nazarbaev undertook to revamp the institutions of the state. One of his intentions in dismissing the Parliament and ordering a new draft constitution was to ease the process of privatization, which had had its share of difficulties in the old parliament, and enhance the status of the Russian language to further accommodate Moscow and his ethnic Russians. See also, "Central Asia: The shadow of dictatorship," *The Economist*, March 18, 1995, p.40.
maintain power in the hands of pro-Uzbek former communist groups.\textsuperscript{70} The Karimov regime's strong anti-Islamist discourse that accompanies its Tajikistan intervention also masks Uzbek concerns about Tajik ethnic assertiveness from across the border in Afghanistan.\textsuperscript{71} Domestic repression, the banning of all opposition groups, including the two most prominent, Birlik and Erk, and widespread human rights violations go in tandem with the regime's perception of the threats and uncertainties it faces. It is inconceivable that Karimov would have allowed any serious opposition to him develop in the next presidential elections and, yet, he still preferred to avoid them by holding a referendum in March 1995 that, by an overwhelming majority, extended his term until 2000. Uzbekistan has tried to parlay, so far unsuccessfully, its anti-fundamentalist and anti-Iranian orientation for influence in Western capitals.

Despite the manifest unease with its environment, the Uzbek regime has, in turn, been perceived by its neighbors as the local bully. Fears of Uzbek "ethnic assertiveness," and Uzbekistan's "greater social cohesion," together with the relationship it developed with Russia over the Tajikistan\textsuperscript{72} has permitted Karimov to claim the mantle of Central Asian leadership primarily at the expense of Kazakhstan's Nazarbaev. The Uzbek secret police by spiriting away Uzbek dissidents from neighboring capitals, such as Almaty and Ashgabad, has demonstrated Tashkent's disregard for their sovereignty. Karimov himself dismisses his neighbors, "when the majority of the states surrounding us are only worried about today, about the problem of surviving, we are thinking about our future and continued spiritual and economic progress."\textsuperscript{73}

It is not surprising that in view of the regime's simultaneous feelings of superiority and vulnerability, Karimov's policies have been erratic. He has often reversed course angering his neighbors and trading partners. It is perhaps in the country's economic direction that the most important and, in the long term, far reaching change is occurring. At first, the regime insisted on pursuing a very gradual transition to the market economy. The "Uzbek way to capitalism" required limited decontrol of prices and even less yielding through privatization of state-owned assets to the public or to foreigners. There were exceptions, the giant British-American
Tobacco was allowed to take a majority stake (51 percent) in the cigarette manufacturing sector (Kazakhstan preceded it with a deal with Philip Morris) and prestige projects such as a Daimler-Benz truck factory were quickly given the go ahead. While undecided between the Turkish and Chinese model of development, Karimov practiced a restrictive form of opening. The regime aimed at increasing efficiency without relinquishing control and liberalized only when it was absolutely necessary. The 1992 Tashkent rioting by students protesting price liberalization and the ensuing price hikes that led to at least two deaths had a definite impact on Karimov; he reduced the number of students at Tashkent university and further slowed down the process of liberalization.

Because its economy's performance compared favorably with other Central Asian ones, Uzbekistan could, at least in the short run, afford to pursue such a strategy. Not only did it not experience as substantial declines in GDP, but the structure of its foreign trade sector has allowed it a greater degree of versatility than any of its neighboring states. Although moderately well endowed in energy resources, including oil and gas, Uzbekistan is the second largest exporter of cotton in the world and its gold reserves rank fourth. Since the export of cotton or gold, unlike oil and gas, does not require a fixed infrastructure such as pipelines and terminals, Uzbekistan has not exhibited the dependency on transit routes of other Central Asian states. As Uzbekistan becomes self-sufficient in oil, its dependence on Russia for energy will diminish. Because Russia insisted on receiving cotton yarn in exchange for oil, energy self-sufficiency will enable Uzbekistan to process larger quantities of the cotton at home and eventually develop a domestic textile industry.

Eventually Karimov was convinced to change economic course and relax his "gradualist" policy by the realization that to export the production of its future textile industry and raise the capital necessary to build the industry in the first place, he would need to operate in international markets. Also, by 1993 the Uzbek economy was stagnating and, compared with Kazakhstan in particular, it was not attracting much foreign capital. It is no coincidence that this was one arena in which the Kazakhs could claim superiority over the Uzbeks, often pointing out that impossibility of economic cooperation with the still "communist" Uzbek

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Criticized abroad for its poor human rights record and lack of progress along economic reform, the regime realized that it was being received with indifference in the West and, in particular, in the US. This was despite its own perception of Uzbekistan's critical importance to the region with its commanding geopolitical position, population, economic, and military resources. The combination of competition from a successful Kazakhstan and the fear of falling behind coupled with an impatient youthful population served as further stimuli: the change of direction came in a January 1994 speech which laid the basis for much closer cooperation with international financial institutions and markets.

While the slow attempts at transformation have received international blessing in the form of loans and credits, the main impediment to continued reform will be the regime's attitude to privatization. Although, Karimov has "admitted that bureaucracy and official corruption were slowing reforms" and that more was needed to be done to break the hold of officials on Uzbekistan's resources and enterprises, he has been unwilling to see any devolution of political power that would enable his regime to accomplish this. He has had to put economic development ahead of political reforms because to make "democratic reforms work, the Uzbek people must first shake off the Soviet-imposed mentality of relying exclusively on handouts from the government." In effect, Karimov has chosen the Syrian road to capitalism; Uzbekistan will continue to have a sizable, if not dominant, state sector coexisting with a private sector that will be dependent on the state for contracts and access to capital. The regime will liberalize enough to acquire foreign exchange but also maintain control of economic processes and, by extension, of political processes as well.
Future Prospects

The emphasis on the domestic political economy of Central Asian states should not completely obviate the security risks they face. Some of these, as the case of Tajikistan demonstrates, can be quite severe. But, by and large, the external scramble for Central Asia has been over resources and markets. The much heralded Turkish-Iranian competition has been over access to these markets and their raw materials as is the present struggle over pipelines between Russia, Western oil companies, Iran, and Turkey.

The Central Asian regimes have been willing participants in this scramble; their primary concern, however, has been with bolstering their hold on power. Their emergence onto the world scene has come at a time when strategic factors have been diminished in importance and what attracts international capital — with the exception of tobacco companies — to new markets such as Central Asian ones is not their size but rather their natural resources. Western multinationals have shown a great deal of interest in exploiting the oil, gas, gold and other minerals but for the most part avoided investing in other areas. Until the countries in the region implement significant reforms, not just economic but also administrative ones, it is unlikely that large manufacturing concerns will invest there in the near future. This is why Turkish, Iranian, and non-Western entrepreneurs, ranging from building companies to traders, have succeeded in making inroads into these countries.

These regimes have also discovered the full extent of their post-independence vulnerability. Well aware of the risks awaiting them, they had not welcomed the demise of the Soviet Union. While cognizant of the potential loss of subsidies from Moscow, few of the leaders imagined the degree to which Russia would interfere in their foreign trade and export routes. Because external revenues represent a regime’s lifeline, especially when domestic industries are failing and the administrative system left behind by the Russians is inadequate for the task of raising revenue or even managing the economy, the search for alternative sources of funding and support became imperative. They have all joined many of the international and regional organizations that was willing to accept them. They quickly joined the Economic Cooperation Organization, originally established by Iran, Turkey and Pakistan. Kazakhstan and Turkmenistan are members of an Iranian-sponsored organization that brings together the littoral states of the Caspian Sea. They all joined the IMF.

In general, Kyrgyzstan and Kazakhstan have proven to have the most pragmatic of the regimes. Having quickly grasped the limitations of his position, the Kyrgyz leader, instead of consolidating the regime’s precarious hold on power through authoritarian policies adopted in the other Central Asian states, decided to gamble on international funding and the opening up the economy. The results, in this case, will not be known for years. Meanwhile, the regime
has to maintain a delicate balance between the process of economic transformation and the political opening it has sanctioned. Akaev may not have resorted to the despotic measures of his neighbors, but this has not stopped him from engaging in the kind of political engineering that can solidify his base of support.

Nazarbaev’s regime in Kazakhstan has balanced the pressures emanating from its divided society with a gradual opening up of the economy to foreign investors. Nazarbaev has realized that Western investments in his country provide him with not just foreign exchange income and hence improved prospects for economic growth, but also with a political umbrella of sorts against possible Russian irredentist or separatist claims. Uzbekistan’s Karimov’s about face on economic policy and his decision to relax the very strict policy of gradualism has come about as a result of the realization that its sheer population and strategic location would not prove to be attributes sufficient to warrant the economic or political attention or respect he craves from major Western powers.

Even the Turkmen regime which assumed it could rely on its rentier status to construct a paternalistic political apparatus has come to realize how dangerous is its dependency on export routes. Although the demand for its gas in Europe and East Asia is bound to increase as those regions’ growth rates accelerate, in the absence of secure delivery lines, it will not be able to supply them. Already it is feeling the pinch of declining external revenues.

On the domestic front the region’s leaders have the “same stated goal: they all want to build a ‘socially oriented market economy.’ The differences arise on the actual social/market split.” This will be an increasingly difficult task as the transition takes its toll on industries and the social fabric of society. It is perhaps not surprising, therefore, that despite the authoritarian nature of the regimes, the leaders of Kazakhstan, Uzbekistan, and Turkmenistan are insecure enough to have, within the course of 1995, organized plebiscites with the purpose of shielding themselves from even the most controlled encounter with “voters.” The plebiscites, which extended their terms to the end of this century and even beyond, also have the added benefit of deflecting future Western concerns regarding democratization. The kind of international capital they have attracted for the most part is not particularly conducive to stimulating political mobilization because investments in raw materials tend to be capital intensive and located in places far from major urban concentrations.

Even if the regimes appear to have consolidated their hold on power for the time being, the difficulties of adjusting to the exigencies of the post Cold War international order and

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specifically its economic logic are unlikely to fade away. They will need to maximize foreign exchange earnings in the short and medium term and this fact alone will determine their political orientations in the immediate future. In the absence of autonomous and strong domestic capability to generate revenues, their alliance patterns will reflect their foreign exchange constraints. Hence, unless they receive strong backing from the West primarily on questions of export routes, they will tend to buckle under Russian and/or Iranian pressure as is presently the case for Turkmenistan in the Caspian Sea status negotiations. Ironically, Turkmenistan, potentially the richest among them on a per capita basis, is also the most vulnerable to outside pressure. The ability of the Kazakhs to attract foreign investment, thanks to their vast, yet to be tapped riches, has rendered them somewhat more resilient to pressure from Moscow. But for how long?