

From Rio to Johannesburg: Comparing Sustainable Development in Kazakhstan, Uzbekistan, and The Kyrgyz Republic

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The 1992 “Earth Summit” in Rio de Janeiro led to a conceptual breakthrough in the theory of sustainable development. By agreeing on “Agenda XXI,” participating countries laid the groundwork for a new, long-term global partnership. Increased economic growth, social and political stability, and the rational exploitation and protection of natural resources were identified as inter-related and mutually reinforcing components of sustainable development.

One of the reasons the Central Asian states of Kazakhstan, Uzbekistan and Kyrgyzstan participated in the Rio conference was their eagerness for recognition by the international community as newly established, independent governments. They hoped to make themselves known by taking on the obligations of sustainable development formulated at this historic summit. The theory was that the implementation of these commitments would allow the countries of Central Asia to integrate into the international system, and collaborate on economic, environmental and social issues. Unfortunately, this has not happened—or at least not at the pace previously hoped. A decade later in Johannesburg, the World Summit attempted to speed up the process of attaining sustainable development. The result was another set of measures inadequate for the rapidly changing economic, environmental and political situations on the planet. The developed countries did not move far enough on implementing Rio’s commitments to fighting poverty and promoting political stability in the

world. The remaining countries, unfortunately, also could not live up to their lofty goals. Interethnic and religious conflicts in the Commonwealth of Independent States (CIS) countries speak to the failings of economic and sociopolitical development in these states and highlight the difficulties which lie ahead.

Sustainable development means different things to different people, but the most frequently quoted definition is from the UN report *Our Common Future* (also known as the Brundtland Report), which states, “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”¹ According to this definition, sustainable development, as well as a commitment to the environment, must include a social and humanitarian context. Hence, sustainable development focuses on improving the quality of life for all of the earth’s citizens, without increasing the use of natural resources beyond the capacity of the environment to supply them.

The notion of “sustainable development” in the countries of Central Asia, particularly in Kazakhstan, Uzbekistan and Kyrgyzstan, is usually interpreted from the narrow perspective of environmental protection. The economic, social, and political aspects of sustainable development are given a secondary priority at best. In reality, sustainable development includes three independent elements of equal value and importance: economic, environmental and social:

Sustainable development . . . assumes that all three of these areas are in balance, harmoniously interacting among each other to create the conditions for a blossoming of the human potential and self-actualization. Failure in one of the areas may lead to an unbalanced society and crisis, and ultimately to an implosion of society.²

Figure 11–1. **Components of Sustainable Development.**

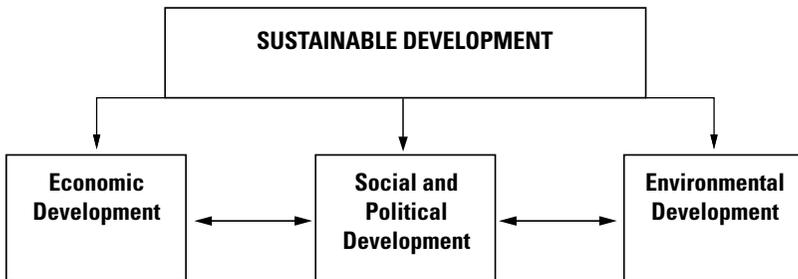


Figure 11–1 presents a simplified schematic of sustainable development and its components. It is important to point out that undervaluing one component inevitably will lead to imbalance in the entire system. For example, unemployment caused by differing levels of economic development across the states of Central Asia inevitably leads to poverty, interethnic tension, a decrease in the effectiveness of the economy and disregard for environmental security. Some states, especially recently independent ones, are unable to address simultaneously problems in each area of sustainable development. Clear examples of this are the efforts of Kazakhstan, Kyrgyzstan and Uzbekistan to address the issues raised in “Agenda XXI.” In the recent progress review of Agenda XXI implementation in Central Asia, there was a proposal to establish the institutional partnership through a regional agreement for effective management improvement in the areas of sustainable development and security in Central Asian countries. This proposal was supported by the statement of the Interstate Commission on Sustainable Development at the World Summit on Sustainable Development, which proposed “to put in place an economic mechanism and the signing of a subregional agreement” for strengthening the efforts of sustainable development in the region.³ However, the introduction of economic mechanisms for reaching overall sustainable development goals presupposes the stable development of a market economy and the established institutional framework for using market techniques to reach social and environmental goals in an efficient way. The outlook for how well these countries will transition from the market-economy system perspective toward overall socioeconomic sustainability is uncertain and many policy-makers and theorists are skeptical.

Analyzing social and economic development in Central Asia over the past decade, it is possible to note certain tendencies toward reform in the region. The periods of reform may be divided into two stages. Table 11–1 shows that during the period 1991–1994, the new countries set almost identical tasks for themselves, and consequently achieved very similar results. During this initial stage, the countries attempted to prevent a sharp decline in the gross domestic product (GDP), which averaged about 10 percent annually, fight inflation, stabilize recently introduced national currencies, and control social and political tensions in the region. Reforms were aimed at stabilizing the principal macroeconomic indicators, particularly inflation. As an example, Kazakhstan’s annual rate of inflation was brought from triple digits to 60 percent in 1995.

Beginning in 1995, the countries of Central Asia adopted different approaches to social and economic reform, which consequently led to differing results. A summary of these differences is shown in Table 11–1.

Table 11–1. Stages of Social and Economic Development in Central Asia, 1991–2001 (Kazakhstan, Uzbekistan, and Kyrgyzstan)

First Stage (1991 - 1994.)	Second Stage (1995 - 2001.)
<ul style="list-style-type: none"> ■ Transition from Moscow-led (Soviet) system of economic management to republican level of management; ■ Introduction of national currency; ■ Establishment of two-level banking system; ■ Price liberalization; ■ Privatization of state-owned property 	<ul style="list-style-type: none"> ■ Pension reform (Kazakhstan); ■ Educational reform (Kazakhstan, Kyrgyzstan); ■ Health system reform (Kazakhstan, Kyrgyzstan); ■ Trade policy reform (Kazakhstan, Kyrgyzstan, Uzbekistan); ■ Tax reform (Kazakhstan, Uzbekistan); ■ Discussions on land reform (from state-owned to private property) (Kyrgyzstan, Kazakhstan).

After the financial shocks of the 1997 and 1998 global economic crisis, stabilization of world financial markets and favorable consumer prices led to a global economic revival in the year 2000. Global economic growth in 2000, when compared to the previous year, was up by 4.1 percent. Financial indicators for the majority of CIS countries were relatively stable, owing to improvements in principal macroeconomic indicators, and sound fiscal and monetary policies.

The countries of Central Asia were included in these macroeconomic improvements. Economic indicators of the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB), all show positive tendencies in recent years in the principal macroeconomic growth indicators. According to the Fitch IBCA⁴ investment rating, one of the main reasons for macroeconomic improvements in the region is an increase in national income from the extraction and export of natural resources. While the increase is good news for the CIS countries, it also has a downside. The states' increasing dependence on natural resources, such as oil, natural gas, coal and metals, causes more economic sensitivity to sharp price fluctuations in the world markets and presents budgetary challenges because of the uncertainty. However, it is possible to limit the negative consequences of these fluctuations through both direct government action

(establishment of state funds, banks, and development of legislation) and through market-based regulation (tax, budget and monetary policies.).

One regulatory example is the National Oil Fund and Development Bank in Kazakhstan. The National Oil Fund can be used to counteract fluctuations in public finance resulting from changes in world market prices for oil exports. The Fund is modeled on the Norwegian oil fund experience, and managed by the National Bank of Kazakhstan.⁵ The goals of the Development Bank of Kazakhstan are to:

- increase the effectiveness and efficiency of public investment activity,
- develop the production infrastructure and manufacturing industry, and
- promote the attraction of domestic and foreign investments into the national economy.⁶

To better understand the differences in approaches to stabilizing sharp fluctuations in the economic development and to establishing a market-based policy system in decision-making processes, it is necessary to examine each of the Central Asian countries in turn.

Kazakhstan

Kazakhstan has adopted a number of measures aimed at moving toward sustainable development. The country actively participates in the “Environment for Europe” and “Environment and Sustainable Development for Asia” processes as well as the preparation of the regional Central Asia Environmental Protection Plan. Active support is also given to the preparation of the Central Asian Sustainable Development Strategy (Sub-regional Agenda XXI for Asia).

In comparison with other CIS countries, Kazakhstan appears to have done well. There is relative social and political stability, the economy is on the upswing, and considerable attention is being paid to the rational use of natural resources and environmental protection.

Figures 11–2 and 11–3 show that in Kazakhstan, per capita GDP in 2002 was \$1,645.80 compared with \$382.61 in Uzbekistan, and \$321.24 in Kyrgyzstan.⁷ However, in spite of the marked difference in the GDP of Kazakhstan from other countries, this does not reflect the level of true sustainable development. As mentioned above, sustainable development should be measured in terms of interrelated indicators, which include social, economic and environmental variables.

Kazakhstan's critical social policy problem is the imbalance between the low level of public funding of the social sector, and the high level of state-mandated entitlements to the population. This is because of the contrast between promised social reforms announced by the government and those actually provided. During the economic crisis of 1998, these discrepancies caused a sharp deterioration in social welfare. Public funding for education decreased to 3.3 percent of GDP; for healthcare to 2.5 percent; and for poverty reduction to a mere one percent. The de-funding of social programs has led to a sharp decline in the condition of the physical plants as well as personnel safety in the education and healthcare sectors. As medical and educational services have deteriorated, skilled personnel have fled to other sectors of the economy and the costs for preschool and daycare, public utilities and other services have increased precipitously. Similarly, cuts in public expenditures for health care have caused a radical drop in the quality and quantity of medical services provided to the population.

Hasty reform of the educational system caused a near collapse of the preschool, elementary and secondary systems as well as professional and technical post-secondary education. The 1999 Education Law, in contrast to the draft 1996 Law, does not include state guarantees for preschool education, nor does it provide mechanisms to guarantee technical, professional and post-secondary education for low-income groups. There are also no provisions for providing student loans, without which, non-subsidized education is much less viable.

Unemployment remains the most serious problem in Kazakhstan. According to best estimates, the unemployment rate in the country may be as high as 30 percent. As a result, living standards have declined sharply. Real income in 1999 was a mere 10 percent of its 1991 level. By way of comparison, in Moldavia, Ukraine and Azerbaijan this figure is 25 percent, while in Russia it is about 50 percent.⁸ A large portion of Kazakhstan's employed population has fallen below the poverty line. This, in turn, has caused a substantial reduction in average basic food consumption per capita. In 1999, consumption of meat and meat products, together with milk and milk products was only half of the 1991 level.⁹

One of the more pressing problems in the social sphere remains the "war on poverty," which is one of the main goals of the Earth Summit's Agenda XXI introduced at the Rio de Janeiro meeting in 1992. The poverty index in Kazakhstan shows that 28.1 percent of the population can be categorized as poor, that is, below the established poverty line. The main causes of poverty are involuntary unemployment and the low aggregate

income of the population. Anti-poverty initiatives have taken the form of a number of efforts to develop and support small business and open access to capital through micro-credit programs.¹⁰ At present, a new anti-poverty program is being developed with the assistance of international finance organizations and outside donors.

In accordance with the *Program on Privatization and Restructuring of State Property in Kazakhstan*, the vast majority of institutions in the social sphere (health care facilities, educational, cultural and arts facilities) were quickly privatized between 1996 and 1998. The process was completely undifferentiated: The simple sale of all assets took place with no provision for post-privatization financial support, state regulation or quality control. There was also a lack of enabling legislation to codify new relationships in the social sphere. By 1997, for example, more than 70 percent of pre-schools simply were closed.

In accordance with the Social Security Law of the Republic of Kazakhstan passed on June 20, 1997, a reform of the pension system was to have begun. The new pension system proposes a transition from collective entitlement to a more progressive system of individualized retirement savings. However, the transition to a new system has not been well thought out, and the main emphasis on speed rather than equality raises questions as to the viability of the new system. During the first decade of independence, Kazakhstan succeeded in creating a stable and peaceful country and putting in place much of the institutional infrastructure needed for the functioning of a market economy. However, the sustainability challenges of the socio-economic development have been more addressed at the central national level with institutional establishments and regulations, rather than through implementation of the centrally-approved policies/agendas and participation at the lower levels of local administration and district communities. All in all, the challenges which must be faced are daunting and sustainable development remains, at this point, a distant goal.

Uzbekistan

According to official Uzbek statistics, almost all of the main macro-economic indicators are on the upswing. However, foreign observers are of the opinion that the most important economic indicators are inflated by the Uzbek authorities. According to *Frankfurter Allgemeine Zeitung*, GDP growth in 1998 was not the 4.4 percent attested to by the Uzbek government, but a mere 2.5 percent. Individual successes in financial policy, particularly the reduction of the budget deficit to 3 percent of the GDP, were negated by the non-convertibility of the national currency.¹¹

Furthermore, curtailment of the free market has led to a decline in direct foreign investment.

On paper, Uzbekistan enjoys the lowest level of “official” unemployment in Central Asia. During 1995-1997, this indicator was 0.3 percent; in 1998-1999, 0.4 percent; in 2000-2002, 0.5 percent. However, most experts reject the official data. The low level of unemployment in the country is explained by the fact that most of the unemployed are not registered with employment centers, and thus are not included in official estimates.

Privatization throughout Uzbekistan is proceeding exceptionally slowly. Implemented for the most part in name only, in the majority of cases, it has not saved the economy from overwhelming government influence, especially in the agricultural sector. Official numbers on privatization are also questionable. IMF data suggests that less than 30 percent of Uzbek enterprises were even partly privatized in 1998. Yet, according to official government information, 45.3 percent of enterprises during that period were in non-state hands.

In a majority of cases in Uzbekistan, privatization of small and medium state-owned enterprises has been completed. However, of those enterprises which have attempted to privatize, most have encountered serious problems. The registration process is exceptionally complicated. Many companies do not have access to foreign currency accounts and pressure from tax authorities remains strong. Moreover, the tax officers have direct access to the bank accounts of any enterprise. As the availability of capital in the country is limited, businesses are forced, in turn, to limit their activities or close shop altogether.

According to official data, privatization of agriculture also is nearly complete. Nonetheless, agricultural labor remains under the dominating influence of the government, just as in Soviet times. Agricultural enterprises and *dehkane*¹² cannot independently select which crops to grow. Seeds and agricultural equipment remain under state control, the harvest is sold to the government at fixed wholesale prices and private ownership of the land is forbidden.

The primary cause behind weak direct foreign investment in Uzbekistan, despite the adoption of new legislation, is the unfavorable investment climate. Foreign investors complain of the numerous bureaucratic hurdles they must overcome to do business and the few guarantees they receive that their investment will be protected from the sometimes arbitrary nature of official decision making. According to Western sources, official statistics issued by the Uzbek Ministry of Macroeconomics and Statistics do not reflect the true economic situation in the country. The data has

a tendentious character and is the object of direct state manipulation. Independent observers point to evidence of a deterioration of the social and economic situation in Uzbekistan. In Uzbekistan, until recently, there were two official state-controlled exchange rates: a commercial rate for business transactions and a special rate for individuals. The official rate in 2002 was, on the average, 750 sums to one U.S. dollar; the commercial rate was 990 sums per U.S. dollar. However, on any given day, the black market rate might raise the rate to 1,150 sums for one U.S. dollar.¹³ In addition, the government placed a restriction on the purchase of foreign currency for businesses operating in Uzbekistan. All of this represented serious obstacles for foreign investment, trade and business development in the country.

A recent IMF mission to Uzbekistan in fall 2003 brought some positive results. The mission pointed to monetary and fiscal policy dialogues and progress in implementing the Action Plan to Achieve Current Account Convertibility of the National Currency. One of the achievements of the government and Central Bank of Uzbekistan was the successful elimination of all multiple currency practices and exchange restrictions that were previously in place.¹⁴

Recently, tight monetary and fiscal policies have had some positive effects on the economy, including a decline in the inflation rate and the unification of the exchange rate. The introduction of convertibility provides a solid foundation for further liberalization of the economy, including free trade, agricultural reforms, privatization, banking sector improvement, and mitigation of investment climate.

Uzbekistan has very low levels of import and export activity. Exports increased from \$2.8 billion in 1995 to \$3.2 billion in 2000, with the highest volume of export reached in 1996. Export revenues come mainly from agricultural production of cotton and wheat. Imports to Uzbekistan are insignificant. As a result, the trade balance for 2000 was estimated at \$100 million.¹⁵ Uzbekistan still suffers from the highest inflation rate in the region, which causes further declines in real incomes; as a result, an increasing percentage of the population is living below the poverty line.¹⁶

Kyrgyz Republic

On January 1, 2002, the total external debt of Kyrgyzstan was estimated at \$1.4 billion, while the forecasted GDP for 2002 was about \$1.824 billion (at 46.1949 soms to the dollar). In 2003, Kyrgyzstan was supposed to pay out \$103.7 million for debt service to foreign creditors. This is the largest annual debt payment in the past decade, amounting to some 50

percent of state income for 2002. According to Ministry of Finance forecasts, the country will not be able to cover all of its obligatory payments; even in optimistic scenarios, the government will cover only about \$62 million. The situation is aggravated by insufficient gross hard currency reserves held by the National Bank of Kyrgyzstan. The January 1, 2002 reserve estimates were \$285 million, that is, \$24 million more than in 2001. However, according to independent estimates at the beginning of the 2003, the reserves actually may be down by \$10 to \$12 million.

In the early years of independence, Kyrgyzstan pursued a market reform program of liberal policies, agreeing in 1994 to an IMF economic restructuring program. Kyrgyzstan began the first phase of privatization in 1995. The second phase—privatization of medium-sized industry—was suspended in 1997, when it was approximately 60 percent completed, amid allegations of corruption. Privatization was resumed in 1998, and Kyrgyzstan joined the World Trade Organization (WTO) in October 1998.¹⁷ The government still retains ownership of some strategic industries, and although it moved to privatize the telecom and energy sectors in late 2002, these privatization efforts have been unsuccessful, due to domestic opposition combined with a lack of investor interest.¹⁸ Land privatization has had some limited success.

Kyrgyzstan inherited one of the least competitive and underdeveloped economies of the former Soviet Union. This condition was aggravated by weak governance, ethnic tensions, limited access to trade routes, a heavy burden of external debt, and a weak banking sector. The current outlook for the economic situation in Kyrgyzstan is tied closely to the remote geographical location of the country, and to resource endowments—for example, a single gold mine, Kumtor, accounts for 7 percent of GDP.

Some hope relief will be provided by the IMF whose forecasts revised the 2002 GDP growth estimate for Kyrgyzstan from 4.5 to 1.5 percent. As a result, a loan will be provided through the IMF Poverty Reduction and Growth Facility (PRGF). Since December 2002, the IMF already has provided two payments amounting to \$30 million, with double that amount promised.

For Kyrgyzstan, however, many economic problems remain unresolved. Positive movement is not apparent in many of the social and economic indicators, and the improvement of others is inconsistent. There are problems with production; arrears in wages, pensions, allowances and stipends; unemployment and underemployment of labor; and the repayment and installment payments for external debt of the state. Low wages,

pensions, and social allowances have brought much of the population to the brink of catastrophe. Existing pensions and allowances, as well as the minimum wage, do not provide a minimum subsistence. At the present time, approximately half the population lives below the poverty line, and GDP remains 27 percent below 1991 levels in real terms.¹⁹ Official estimates put unemployment at 12 percent, but multilateral agencies working in Kyrgyzstan estimate the level at closer to 20 percent.²⁰ Current account deficits have been consistently high and the debt burden heavy, making it impossible for Kyrgyzstan to invest in sectors that would contribute to long-term sustainable development. Infrastructure, education and the health sector have all deteriorated significantly since the collapse of the Soviet Union.

Conclusions

To date, the reforms that have been implemented do not give due attention to sustainable development. The economies of Kazakhstan, Uzbekistan and Kyrgyzstan, first and foremost, were formed under conditions of an inter-republican division of labor within the Soviet Union. In this respect, the national economies of the Central Asian countries are complementary to a certain degree, and self-interest should favor cooperation as a more direct path to sustainable development for all. Moreover, these countries are physically contiguous and share common transboundary economic and environmental problems, as well as common interests in the areas of the rational use of water resources, energy, and land use. Effective solutions to these problems will require close cooperation among these countries, something that has not always occurred in the past.

At the basis of global cooperation among the countries of the world is the concept of sustainable development, which captures the reality of the modern economy. This is reflected in the high degree of interdependence and interactive complexity in economic, social, political, and environmental areas. Globalization provides greater access to markets and wider opportunities for technology transfer, which promises productivity growth and increases in living standards. Globalization also brings with it more competition for locally produced goods, and threats to domestic employment. Foreign capital influences also present some dangers to each country's economy. Capital inflow with significant increases in money supply and unbalanced trade with inflow of cheap imports as well as decreases in the competitiveness of domestic exports due to low-price

import expansion from neighboring countries are a concern of all these states.

One solution might be regionalization, the creation of regional economic blocs with the potential to better fit in with the “new niches” of the international economy. As an example, the Eurasian Economic Association (Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) represents a market of roughly 200 million people. Its vast natural resources and remaining scientific and intellectual potential could allow these countries to develop together new technology-intensive products that could compete in the world economy.

The Shanghai Cooperation Organization (SCO), which consists of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, has good prospects as well. In this case, internal markets account for one third of the world total. Working with its regional neighbors, as well as with other more distant countries, it is possible to see Central Asia moving along the road to sustainable development. To do this, however, the proper balance must be struck between the economic, political/social and environmental elements of sustainable development—something that has not been achieved to date.

Currently, there is a strong need for new, effective policies for businesses in the commercial sector, and regulatory policies for the public sector in Central Asia. Even in those cases where such policies have been created, the implementation has been weakened, due to Soviet style managerial tools and the lack of information regarding basic concepts of competition, market structure and business performance rooted in central planning. The most constructive mechanisms of change can occur only through a partnership among state actors, private enterprises, non-government organizations, the mass media and the public in general.

When these states realize they must act not as competitors, but as partners, they will better be able to pursue coherent and combined policies that can achieve the goal of sustainable development.

It is reasonable to hope that the Central Asian states will conclude that they have more to gain from cooperation than competition. In the face of common environmental problems (water, land degradation and desertification), economic concerns (trade regulations, unemployment, underemployment of resources, and flexibility of capital and labor movements), and disproportion in social development (poverty, harmonization of legal policies, ethnic and religion identity), common solutions that arise from cooperative action hold the key to success.

Notes

¹ Gro Harlem Brundtland, “Our Common Future,” Report from the United Nations Commission, 1987.

² Kanat Berentayev, independent expert, Institute of Economic Research, Kazakhstan.

³ Environment for Europe, Fifth Ministerial Conference, *Invitation to Partnership on Implementation of the Central Asian Sustainable Development Initiative*, submitted by the Governments of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan through ad hoc working group of senior officials, United Nations Economic Commission for Europe, Kiev, Ukraine, May 21-23, 2003.

⁴ Fitch IBCA Rating Agency, <<http://www.fitchibca.com>>.

⁵ Kazakhstan Economic and Energy Update. January 29 - February 9, 2001, <<http://www.bisnis.doc.gov/bisnis/isa/010222kzenupd.html>>.

⁶ Decree of the Government of the Republic of Kazakhstan of May 18th, 2001, 659, <<http://www.kdb.kz>>.

⁷ Asian Development Bank (ADB) - Key Indicators 2003 <www.adb.org/statistics>.

⁸ Integration in the framework of Eurasian Economic Commission in metallurgy area may increase sustainability of Kazakhstani economy, *Panorama*, no. 31, August 2002.

⁹ “Kazakhstani society has the social stratification form of Eiffel Tower”, *Panorama*, no. 21, May 2002.

¹⁰ State Program on Poverty Reduction, August 2001, Ministry of Labor and Social Protection of the RK, <<http://www.enbek.kz/publik/>>.

¹¹ The Uzbek currency, the Sum, became fully convertible on October 15, 2003.

¹² Uzbek farmers

¹³ “Uzbekistan: IMF Ready To Support Tashkent, But Keeping Its Eyes Open”, by Antoine Blua, June 2002, Radio Free Europe/Radio Liberty, <<http://www.rferl.org>>.

¹⁴ Joint Press Statement of the Government and Central Bank of the Republic of Uzbekistan and the Mission of the International Monetary Fund, <<http://www.imf.uz/pressrelease3.html>>, Tashkent, October 8, 2003.

¹⁵ “Western sources on current condition of Uzbekistan economy”, *Panorama*, no. 17, May 2002.

¹⁶ Ibid.

¹⁷ *Economist Intelligence Unit, Country Profile: Kyrgyzstan 2003, Economic Policy Initiatives timeline*, 25.

¹⁸ Ibid., 27.

¹⁹ Ibid., 27-28.

²⁰ Ibid., 18.