

Reform Strategies in Central Asia: Early Starters, Late Starters, and Non-Starters

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For nearly a decade prior to independence, Central Asian governments had discussed reform in the context of economic “acceleration” and governmental “restructuring” (*perestroika*). Soon after independence in 1991, all five Central Asian states developed new strategies to meet the immense challenges of post-communist transformation and “de-statification.” Today, after more than 12 years of reform efforts, it is clear that none of these Central Asian states have been successful in attaining their goals for political and economic development. To date, no country has announced that reform has been brought to its conclusion. To the citizens of Central Asia, reform has become a permanent condition of governance and more of an explanation for why things do not work than for why they do. In order to change that perception, significant work remains to be done and many challenges must be faced.

On the whole, the governments of the Central Asia states have been more enthusiastic about economic than political reform. The reasons for giving priority to economic reform are straightforward and to a large extent understandable. First, existing political leaders and government officials sought to increase their states’ economic potential without limiting their own ability to benefit from their positions as public officials.¹ They were inclined toward economic reforms that offered the promise of greater economic rewards, but shied away from political reforms that might give advantage to competing individuals or groups. Second, the leading analytical approaches to development stressed that economic reform should be ordered logically prior to political reform.² According to many analysts,

countries that suffer from poverty, insufficient investment in human capital, underdeveloped infrastructure, antagonistic or exploitative trading relationships, excessive bureaucracy and government over-regulation, cannot be expected to implement political reforms successfully. However, once economic reforms begin to create new opportunities, the theories maintain, new constituencies will form and political reform will follow. A third reason why economic reform has been more forthcoming than political is that the international community has provided more moral, technical and material assistance in this area. The level of external support offered by international donor institutions is a matter of academic debate. Some analysts view the post-communist support offered by the donor community as insufficient, misguided and generally irrelevant to the domestic circumstances of the countries. Whatever the real effects of international aid, international donors have, in fact, played a crucial role in communicating the expectations of the international community for political and economic practices.

While the Central Asian countries have made headway in economic reform, they face the criticism that economic reform alone cannot engender the long-term social and cultural changes that also are needed. For people to demand integrity, accountability, fair play, openness, and effective administration from their governments, they must be prepared to provide public support in the form of taxes and public participation in shared self-government. For democratic development to be truly sustainable, cardinal changes must take place in the relationship between the individual and the state. Moreover, some analysts argue that the long-term viability of economic change hinges upon the character of governance. Poor governance quickly cancels the benefits of economic transformation and growth.

What strategies for reform have been adopted by the Central Asian states? What is the relationship between economic reform strategies and political reform strategies? How successful have these strategies been? This chapter surveys the relationship between economic and political reform in Central Asia, arguing that the assumptions, methods, conduct, and results of political reform strategies have varied significantly by country. The chapter concludes with extrapolations of reform trends for future Central Asian political development.

Economic Reform and Political Reform

The principal development challenge to emerge from communism is one of transforming previously authoritarian, centrally planned societies

into market-led democracies, with vibrant economies and open political systems. The rationale for these changes is not primarily cultural, but functional. Globalization clearly tends to reward those countries that succeed in such practices and punish those who do not. In order to succeed in globalized commercial and information markets, governments find themselves under pressure to conform to accepted international standards of policy and practice.

Prevailing international standards tend to be those practiced and promulgated by the upper-income countries of the West. As a consequence, “best practice” in political and economic organization tends to be identified with practices that are prevalent in Europe and North America. Although political organization in the developed world exhibits a variety of institutional forms and procedures, a small number of principles are common to all economically advanced, stable democracies. The political organization of advanced countries tends to stress individual rights, voluntary contractual relationships, popular political participation, limited government, public accountability and financial transparency.

These features are common, but not necessarily self-initiating and self-regulating. They do not emerge from good intentions alone, but depend upon a finely tuned and continually evolving framework of public processes. Most often, public organizations are used to ensure that rules, standards, norms and procedures of openness are enforced. For example, although markets are elemental forms of human exchange and have been in existence as long as people have been free to enter into relationships and transactions on a voluntary basis, market relationships are not self-establishing and self-regulating in all cases. They require that governments or some alternative organizations solve collective action problems by discouraging free riding, opportunism and rent-seeking behavior.

Over the years, the world’s international financial institutions, led by the World Bank and the International Monetary Fund (IMF), have developed a consensus on policy prescriptions to help their member countries solve problems of economic development. Informally, this set of policy prescriptions has come to be known as the “Washington consensus.” An externally motivated structural adjustment package usually involves policy correctives in a number of areas including: fiscal responsibility; disinflationary policies; price liberalization; trade liberalization; currency stabilization; and foreign investment attraction. A policy package may, for instance, seek to tighten fiscal discipline through reducing government budget deficits and subsidies to private sector, helping to privatize public enterprises that might work more efficiently in the private sector, and

bringing interest rates into line with market forces. Another type of package may also seek to aid in opening national economies to foreign imports and establishing conditions to support foreign exports on the basis of comparative advantage. The policies of the “Washington consensus” have been criticized for differentially serving commercial interests represented primarily in developing countries. Critics claim that the Washington consensus tends to encourage underdeveloped countries to rely on importing industrial goods made in the advanced countries while exporting primary commodities and raw materials for markets in the developed countries. Prices for industrial goods tend to be less sensitive to changes in market cycles. Primary commodity prices, in contrast, tend to fluctuate widely, creating destabilizing cycles of boom and bust in the underdeveloped countries. These cycles are reflected in the instabilities and uncertainties that characterize political processes in developing countries. As the Central Asian states emerged from the Soviet period to become independent countries, they quickly became subject to the pressures of the international marketplace.

At the time of independence in Central Asia, all the governments and important political leaders of the region endorsed the ideas of democratic politics and market-oriented economics. Yet the countries adopted very different national strategies for achieving their goals.³ After more than a decade of independence, it is apparent that the differing development strategies adopted by the five new governments of Central Asia in the first years of independence have led to significantly different policy outcomes.

In assessing how the contrasting strategies of these states affected their progress toward economic liberalization and democratization, it must be acknowledged that progress toward democracy in all the Central Asian states has been limited. Four of the five Central Asian states are governed by former leaders of the Communist Party, and each of the Central Asian republics are largely administratively run by former communist party officials. By the end of the first decade of independence, all the governments of Central Asia had “presidents,”⁴ but in all cases, these were officials from the Soviet *apparatus* or high rungs of the Soviet establishment. Moreover, all the countries established “presidential” systems, giving the presidents the power to rule by decree.

Although all of the countries have conducted elections, none of the governments can be said to have conformed to international standards for free and fair elections. Three of the governments have former communist leaders who have extended their mandates in extra-constitutional ways. None of the governments has what could be described as an independent

judiciary. None of the governments has established a functioning legislature with true powers of the purse. Even in the most open and liberal of the countries—Kazakhstan and Kyrgyzstan—the parliaments have been routed by presidential decree. Judging by the benchmark criteria for measuring democratic progress used by Freedom House,⁵ in the years since independence the Central Asian societies have failed to realize their potential for democratic change.⁶

Although the Central Asian states may have made limited progress toward establishing sustainable systems of democratic governance, important relative differences do exist among them. The status of democratic reform is quite different in each of the states. To some extent, these differences are the product of *Fortuna*—some of the Central Asian countries have significant natural resource endowments, some have advantages of position, some have simply been fortunate. But much of the variation can be attributed to the substantive policies pursued by the states in the a wide variety of areas, including governance, rule of law, adjudication of disputes, human and civil rights, treatment of dissidents and opposition, treatment of non-nationals, and tolerance for religious, ethnic, and territorial differences.

While the international community has urged the countries of Central Asia to adopt policies that would encourage democratization, by far the most important impetus for change—both in terms of donor resources and in steps taken by the countries themselves—has come in the form of international efforts to support relatively non-political “governance” reforms or “structural reform.” Structural reform of governance standards, policies, and practices generally is regarded as a way of inducing changes that will help bring countries into line with international standards—without compromising the countries’ national sovereignty and right to non-interference in domestic affairs.⁷ Structural reform is seen as a non-political process of improving the technical capacity of governments to carry out public policy. To the extent that this is accurate, structural reform does not entail “modernization” or “westernization,” rather, it implies conformance with standards, policies and practices of the international community.

Structural reform, in the broadest sense, is anything that happens within a country that allows the country to participate more effectively in the global economy. Structural reform entails a process by which a country’s institutions, policies and practices are brought into line with prevailing international standards. The purpose of structural reform is to create a favorable policy environment for accountable, transparent

economic policy, with well-defined public and private sectors working in mutually reinforcing ways to promote prosperity and sustainable development. Countries undertake structural reform programs because they realize that participation in the global economy requires policy conformance with international standards. Some structural reform measures are narrowly economic in their purpose; others are more broadly oriented and aim to improve the policy environment that facilitates economic activity. Policy changes alter the status quo, producing winners and losers. As a consequence, all policy changes influence the balance of constituencies in a society. Moreover, economically oriented structural changes and politically oriented structural changes are linked in terms of reciprocal effects.

However the relationship between structural economic reform and democratization is, at best, a probabilistic one. While free markets in the long run may lead to free minds, the effects of long run processes often are beyond the time horizons of most political systems. Political leaders rarely rely upon economic change to bring about desired political change. For this reason, political leaders often adopt conscious strategies of political reform to further their goals. All political leaders, even the most cynical, have some concept of the public interest.

There are typically two basic thrusts of political reform strategies, one formal and the other informal. The first method is to use political institutions to shape future political change. The formal political institutions offer ways of engaging elected officials, representatives and the public in the process of change. The other method relies upon political exchange. This method consists primarily of using economic reform to support favorable constituencies. All economic changes, even the most non-political, necessarily produce winners and losers. Political leaders recognize that no matter how strong or deep their support, they are surrounded by challenges and sometimes even by threats. Using the changes introduced by economic reform to reward friends and punish enemies is one of the most fundamental forms of political strategy, and far more important in most developing countries than using the formal political institutions themselves.

The formal institutions of democratic governance require an accountable executive branch, a deliberative legislature, an honest and fair judiciary, and the governance standards of probity, transparency, and efficiency necessary to carry out the public mandate. Promoting change through the use of the formal political institutions requires reliance upon civil procedure, elections, public participation, recognition of the professional independence of the judiciary, and the vetting processes of opera-

tional independence of auditors and review commissions. None of these strike insecure political leaders as efficient mechanisms of rule.

Reliance on political exchange to reward supporters and punish those who dissent or oppose the government appears to many political leaders to be a more direct, and thus more efficient, means of achieving objectives. Even when political leaders are not so cynical as to see the political process as consisting primarily of quid pro quo exchanges, they nonetheless tend to interpret the public interest in terms of their own desire to garner support and avoid opposition.

The pages to follow survey the main features of structural reform in the countries of Central Asia. Extensive data and information are available regarding the results of economic structural reform. Much less is available regarding the results of political reform. What has not yet emerged is whether each country has arrived at its current state as a result of specific economic or political factors.

Kazakhstan: Outlines of a Petrocracy

Many areas of Kazakhstan's macro-economic reform have been successful and some provide a model for other post-communist countries.⁸ Soon after independence, the Kazakh government established a legal foundation and regulatory system for a private economy.⁹ The government introduced a convertible national currency, the *tenge*. It moved quickly to establish sound monetary and fiscal policies, including modern civil and tax codes as well as banking and investment laws in accordance with international standards. The government also carried out macroeconomic reforms including price liberalization and freeing markets from government controls. It turned major enterprises over to the private sector, including a majority of the power generation facilities and coalmines. Seeking to encourage international trade and foreign investment, the government passed environmentally sound oil and gas legislation that met international standards.¹⁰

In contrast with these economic policy successes, Kazakhstan has made less headway in other areas. On the whole, the economic benefits of Kazakhstan's rapid economic growth have been available to only a small portion of the population. With an average per capita annual income of \$1,300 in 2000, most Kazakhstan citizens still had not benefited fully from the transition to market based economics. Structural reform means that changes must take place in the country's economic structure. These changes will benefit some, but will be detrimental to others. The costs of structural reform, that is the unemployment created by closing out-of-

date enterprises, the loss of value of tangible assets, and the psychological uncertainty introduced by the reforms, are rarely borne by the rich. The costs of structural reform usually are imposed upon the poor or the less well politically connected. In the wake of structural reform, Kazakhstan continued to rely upon oil sector revenues, fiscal redistribution and foreign donor assistance to finance the costs of structural adjustment. Unless exceptional steps are taken, further development of Kazakhstan's oil and mineral sectors cannot be expected to lead to a wide redistribution of income. The situation is also grim in the agricultural sector where adequate investment in infrastructure, such as roads, processing equipment and farm inputs is lacking. Moreover, the banking reforms virtually ignored agriculture, failing to provide much needed credits for farm expansion. Although Kazakhstan has adopted a private pension system, moving ahead of other former communist countries, the social safety net has worn thin in many areas.

Given Kazakhstan's decade of experience with structural reform, one of the critical issues for Kazakhstan's future is how economic and political reforms will be linked in terms of policy cycles. Economic development strategies that emphasize a dominant economic sector under close government control run substantial risks. Too heavy a reliance on primary commodity exports could lead to the so-called "Dutch disease"—a situation in which oil-rich countries draw in large amounts of foreign capital for needed oil development, but find that the resulting strong exchange rates hinder their ability to competitively price other goods and services. While the government may be able to count on future revenue from rents on oil and gas extraction rather than from broadly based and relatively unpopular forms of taxation such as personal income tax or excise taxes, the political consequences of government dependence on such an easily monopolized sector as oil and gas can present real challenges to other aspects of liberalization. Government control of the natural resource sectors has led to policies that conceal incomes, compromise fiscal transparency and benefit insiders far more than the general public. The long-term success of Kazakhstan's structural reform is likely to rest upon policies that serve to diversify the economy on a sector and regional basis.

The political reform strategy of Kazakh political leaders has put little emphasis on the formal political institutions, or, for that matter, reform. When the first post-Soviet legislature proved to be recalcitrant from the point of view of the executive, it was dissolved summarily in December 1993 by the order of the president. The new parliament elected in March 1994 proved not much more effective and also was dissolved. Since then,

the president has succeeded in winning overwhelming voter approval for a new constitution which greatly expanded his powers. In addition, Kazakh leadership has used adroitly the results of economic reform to politically enfranchise its supporters.

Privatization created a stratum of “new Kazakhs” who gained influence in government and society because of their wealth, which largely was acquired as a result of government supplied credits and special benefits. Back door privatization through “management contracts” and other stratagems allowed close supporters of the political leadership to profit in the early post-communist reform. The government’s emphasis on the development of an export-led economy, particularly energy and minerals, helped promote the expansion of a stratum of close supporters who had everything to gain from continuing their support and everything to lose by arguing in favor of new directions.

Kyrgyzstan: Winning Friends and Losing Ground

Kyrgyzstan’s enthusiasm for reform early on earned it a reputation as the “democratic showcase of the former Soviet Union.” Soon after independence, the Kyrgyz government embraced the international financial institutions’ policy prescriptions known as the “Washington consensus.”¹¹ Following the standard policy prescription, the Kyrgyz leadership sought to liberalize prices, scale back the size and scope of government, introduce competition, and encourage foreign trade. Kyrgyzstan attempted to implement these prescriptions in good faith, but at the same time, faced substantial obstacles to successful economic reform. While the economic reform measures did result in rapid and significant advances in state capacity, they did not lead to expected economic growth, improvements in social welfare, or do much to improve the government’s capacity to protect civil rights. Furthermore, these economic policy changes had negligible effects and in some instances even negative effects on the processes of political liberalization.

Kyrgyzstan’s particular path is closely related to its unusual background and circumstances. Prior to independence, Kyrgyzstan occupied a highly specialized niche in the communist economic system, serving primarily as a provider of commodities for industries located in the European parts of the Soviet Union. When cut off from Soviet-era suppliers and customers, Kyrgyzstan’s small and uncompetitive industrial enterprises quickly became insolvent. The agricultural sector was blocked from access to farm inputs such as tractors and advanced agricultural technology. Unable to import expensive farm equipment and technology,

the country quickly began slipping toward low-technology subsistence farming. The transition to an open trading economy also proved difficult. Between 1991 and 1994 farm and industrial output fell, trade dropped, inflation soared, and the government ran a large fiscal deficit. The Kyrgyzstan economy reached a nadir in 1994, at about the time that foreign development assistance began to arrive. The International Monetary Fund (IMF), the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the other major international financial institutions began pumping money into the Kyrgyzstan economy to make an example of this small, rugged country that was willing to risk the unknowns of entering quickly into the world economy.

Not until 1996 did the Kyrgyzstan economy begin to rebound from the post-Soviet Union collapse contraction. During the period 1995 through 1997, inflation was reduced, the budget deficit as a proportion of GDP was cut in half, and with international donor assistance, the Kyrgyzstan government made good headway in establishing the legal and regulatory foundation for a market economy. Kyrgyzstan carried out privatization of small enterprises and overhauled the country's banking and financial systems. In 1998, the Kyrgyzstan constitution was amended to allow for private land ownership and Kyrgyzstan became the first post-Soviet country to join the World Trade Organization. The Kyrgyzstan government eliminated export registration in 1998 and export duties in 1999.

Kyrgyzstan's population has been growing modestly since independence. The estimated population was five million people in mid 2001.¹² Prior to independence, Kyrgyzstan's workforce was spread evenly among agriculture, industry and services. Yet in the past decade, industrial employment dropped to less than half of its 1991 level and industrial production saw steep declines, especially in the early years after independence. With the exception of a few mining sectors, the industries have not rebounded. Coal production in 2000 was less than a quarter of its 1991 level, although hydroelectric production did increase. During the same time, agricultural employment grew by 50 percent. Agricultural output, which dropped initially after independence, increased overall by the end of the decade. Russia, historically Kyrgyzstan's largest destination for exports, was overtaken by Germany for first place among Kyrgyzstan's export partners after the 1998 Russian financial crisis. Russia continued to be the largest source of imports for Kyrgyzstan, followed by imports from neighboring Uzbekistan and Kazakhstan.

While the numbers and trends are discouraging in many sectors, Kyrgyzstan, in absolute terms, has made the most visible progress of the Central Asian states toward becoming a democratic institution. Even though Kyrgyzstan retained a “presidential” form of government, the parliament has grown relatively independent and challenges presidential authority on key issues. Opposition political figures are often subject to harassment and intimidation, but the very fact that such figures do speak out indicates a domestic political context where competing views and constituencies have some room to maneuver. Non-governmental civic organizations are becoming more widespread and influential. In 2000, heads of local administrations were elected for the first time rather than appointed. While Kyrgyzstan’s human rights record receives criticism from international organizations, more open discussions and fewer instances of direct coercion and intimidation of human rights activists occur there than in other Central Asian states.¹³

Despite these promising signs, freedom of the press has suffered, aided in part by a growing government concern with terrorism and insurgency. The political reform strategy of Kyrgyz political leaders, like that of Kazakh leaders, places only minor emphasis on formal political institutions. In 2001, the World Bank Institute of governance indicators ranked Kyrgyzstan as below the fortieth percentile in all six key governance categories.¹⁴ Electoral process, judicial independence, and human rights practices in Kyrgyzstan have been criticized by leading international human rights organizations, such as Human Rights Watch and the Organization for Security and Cooperation in Europe.

In Kyrgyzstan, just as in Kazakhstan, when the first post-Soviet legislature proved to be recalcitrant, it was summarily dissolved by the order of the president. A new parliament that favored pro-government candidates was elected in a voting process managed by a central electoral commission. The Kyrgyz government has found that the informal processes of reform offer more easily manipulated mechanisms for influencing supporters and opponents. Kyrgyz officials also have found that their influence over government credits may be used to their advantage and many have profited from their connections. Conversely, some high ranking government officials who fell out of favor have been prosecuted for corruption.

Tajikistan: The Struggle for Reconciliation and Development

Physically remote and economically isolated from its neighbors by the specter of political instability, Tajikistan’s social and economic indica-

tors cascaded downward in the first five years of independence. Between 1992 and 1996, the Tajik economy contracted by nearly 40 percent.¹⁵ As much as 40 percent of the country's population was directly affected by the civil strife; as many as 50,000 people lost their lives; 600,000 were displaced; and 60,000 fled to neighboring countries.¹⁶ Thousands of women were widowed and tens of thousands of children were orphaned. The wartime damage was compounded by a series of natural calamities that beset the country, including torrential rains, floods and earthquakes. By the beginning of 1997, the year of the Tajik peace accord, Tajikistan ranked 115 out of 174 in the United Nation Development Programme (UNDP) Human Development Index.¹⁷

In 1996 the Tajik government embarked on the first comprehensive effort at structural reform and the adoption of international standards of fiscal and monetary management. The economic program targeted reducing inflation, regularizing relations with external creditors, increasing foreign exchange reserves, liberalizing external trade and payments, and improving the social safety net. The government liberalized bread and grain prices, replacing bread subsidies with targeted price compensation payments. Trade restrictions were almost completely eliminated, as export and import licenses and duties were lifted. The state grain fund was terminated while liberalization of cotton marketing was begun. Shortly after these initial steps toward structural reform were taken, the continuing costs of the civil conflict, in addition to weak commodity prices, drove the government to abandon some aspects of its reform program and policy targets. Faced with a widening budget deficit, the government resorted to administrative measures late in 1996 to raise new revenue and imposed export and excise taxes and import duties, as well as halted foreign exchange auctions in favor of directed lending of foreign exchange by the National Bank of Tajikistan (NTB). Following a United Nations brokered peace agreement that was signed in June 1997, the Tajik economy began to turn around.¹⁸ In 1997, the country registered the first post-independence economic growth, as GDP grew by 1.7 percent, with most of the gain in the last quarter of the year. Since then real GDP has been growing in Tajikistan on an annual basis. Inflation, which had reached 164 percent in early 1997, declined to 2.7 percent in 1998 as the GDP grew by more than five percent.¹⁹

Significant changes still must take place for Tajikistan's structural reforms to spur political liberalization. Tajikistan, like all of the countries of Central Asia, claims to support the principle of free trade. However, unsatisfactory arrangements regarding government subsidies, currency

controls, banking, customs and taxation, infrastructural development, and control over access to markets, continue to hamper trade and development in the country. At the urging of international financial institutions, the Tajik government undertook a comprehensive program of structural economic reform. The government's program was established in the form of a policy matrix with timetable benchmarks. The priorities for the structural reform agenda were: improved governance, privatization, bank restructuring, land reform and energy sector reform. Governance measures included reform of the treasury system and establishment of a single independent auditing agency. The goal of privatization was to raise productivity and support growth targets, as well as assist in achieving fiscal goals, by bolstering revenues and lowering direct or indirect subsidies. In structural reform, particular emphasis was placed on measures that would lead to a greater use of monetarized commercial transactions and a reduction in inefficient and non-transparent barter relations.

Much of the legal and regulatory framework for reform was already in place. As early as March 1992, the Tajikistan Supreme Soviet, their parliament, had approved land reform legislation giving citizens the right to own, lease and inherit land. Both the Tajik constitution and the laws on privatization guaranteed property rights, including intellectual property, real estate and business property. Agricultural land remained under state ownership, but could be leased. Under the land code, lease rights are inheritable and may be sold. The initial privatization process in Tajikistan moved slowly, stalled by the civil conflict and a weak banking sector. With the assistance of the World Bank and the IMF, the "Law of the Republic of Tajikistan on Privatization of State Property in the Republic of Tajikistan" was passed on May 16, 1997. This law established the framework for privatization, including a legal framework, title registry, and procedural guarantees. New privatization legislation changed the process from a top-down to a competitive bottom-up program, with more rapid wholesale transfer of assets into the private sector.

Banking reform followed a similar course. In 1994 a new law, "On Banks and Banking Activities," established procedures for forming statutory capital and specified the processes for: starting and terminating commercial bank activities, issuing and recalling licenses for bank audits, filing bankruptcies, and operating non-banking financial organizations. A new tax code took effect in January 1999, while a reform in the value-added-tax (VAT) took effect in July. These improvements in tax policy and administration contributed to an improvement in government revenue in 1999. However, the practice of tax offsets remained a hindrance to full

monetization of the economy.²⁰ To enhance the role of the domestic currency, the Ministry of Finance started collecting all taxes in Tajik rubles in September 2000.

The Tajik government has made major efforts in its foreign trade sector through improvements in the public infrastructure for transport, communication and banking services. As these efforts succeed, they can be expected to exacerbate the trends in the region regarding organized crime and drug trafficking. Traffickers use legitimate transportation infrastructure and banking operations in order to move their wares and to conceal the funds derived from trade in handguns, weapons materials, drugs, drug precursors and drug production materials.

Mirroring the economic reform strategy, Tajikistan's political reform strategy is extraordinarily complex. The growth of the Tajik economy has not created a class of "new Tajiks" in the way that Kazakhstan's economic development has. Moreover, most of the political competition in Tajikistan takes place in the context of civil war. While the civil war seemed to center on ideology, in fact, the most significant dimensions of the dispute were regional, reflecting Tajik traditions of long-standing. The winners in the early years of reconciliation were the battlefield commanders who had sided with the Rahkmonov government. Gradually, members of this coalition broke up as the leader of the Hujand faction fell from favor. More recently, the country's political leadership has distanced itself from this group as the political situation has grown more stable. What is not clearly understood is the degree to which the government has benefited directly or indirectly from the region's drug trade revenues. Journalists have speculated on relations between government officials and the drug traffickers, but these accusations have proven to be ephemeral, in part, because Tajikistan for a time is one of the most dangerous countries in the world to be a journalist.²¹

Turkmenistan: The New Sultanate

Among the countries of Central Asia Turkmenistan has been the most resistant to the adoption of genuine structural reform. Those changes that have taken place have been, for the most part, directed at increasing the capacity of the state and in particular at enhancing the glory and authority of the country's authoritarian president, Saparmurat Niyazov. Bordered by Iran and Afghanistan to the south, Kazakhstan to the north, Uzbekistan to the north and east, and the Caspian Sea to the west, Turkmenistan's deserts dominate the country's physical terrain. Turkmenistan is a country with

great potential for economic development but is constrained by physical circumstances and poor governance.

In mid 2001, Turkmenistan had an estimated population of 5.5 million people, growing at an annual rate of 1.3 percent.²² Turkmenistan's workforce historically had been predominantly agricultural and service oriented. However, since independence, the service workforce has diminished in size and the agricultural workforce and industrial labor sectors have each grown by about 25 percent. Official statistical materials on economic activity, supplied by the Turkmenistan government, are viewed with skepticism by outside observers. According to the statistical data provided by the state, agricultural production is reported to have increased substantially in the years since independence, especially the production of food and forage crop. Cotton production also is reported to have increased sharply.

While agriculture is the largest employer in Turkmenistan, the country's energy sector is the largest revenue earner. Because gas and oil sectors revenues are so closely related to Turkmenistan government revenues (with allegations that gas revenues have enriched individuals responsible for public decision making) and because those revenues are critical to Turkmenistan's official credit rating, statistical reporting on the energy sector is an item of great sensitivity for the Turkmen government. The government began concealing production figures for natural gas in 1997, and some suggest actual output levels for gas and other forms of industrial production in the latter 1990s are considerably below 1991 pre-independence levels. Turkmenistan's foreign trade figures are similarly unreliable. Thus, it is difficult to develop a clear picture of Turkmenistan's balance of payments. There are indications that the 1998 financial crisis in Russia impacted heavily on Turkmenistan's balance of payments, by leading to the cancellation of Russian gas orders along with delays in outstanding payments. Some evidence also shows that Turkmenistan ran a significant balance of payments deficit in recent years. Despite Turkmenistan's great potential energy wealth, problems of administration and governance have prevented the country from fully benefiting from its natural resource base.

Turkmenistan's first and only president, Saparmurat Niyazov, was the former first secretary of Turkmenistan's communist party during the Soviet period. Until the Soviet collapse, Niyazov appeared to be a staunch communist, ideologically committed to the Soviet Union. However, as the Soviet Union began unraveling, Niyazov changed his ideological colors, assuming the position of a Turkmen nationalist. Like other Central Asian

communist party leaders who suddenly became presidents of independent states, Niyazov was a public proponent of building a democratic, market-oriented state. Since independence, however, Turkmenistan's progress in democratization has been negligible. Political authority is concentrated in the office of the president, with little legislative or judicial autonomy. Non-governmental civic initiative is routinely curtailed, and political opposition figures are isolated and excluded from the political process. Human rights abuses are frequent and severe. While Turkmenistan was ranked in the top fiftieth percentile in terms of political stability in 2001 by the World Bank Institute governance indicators, the country scored in the bottom tenth percentile in the categories of regulatory quality, voice and accountability, and government effectiveness.²³

Turkmenistan's political reform strategy does not warrant the dignity of being called a reform strategy. The political leaders have done little more than to pay off friends and eliminate enemies. Any idea of reform ended with the assassination attempt on Niyazov's life in late 2002.²⁴ In the wake of this event, the country's human rights situation has deteriorated markedly as the sole criterion for advancement in the society has become unquestioned loyalty to the country's leader.

Uzbekistan: National Consolidation and Social Consensus

Uzbekistan, with an estimated population of 25.1 million people in mid 2001, has the highest rate of population growth among the Central Asian countries.²⁵ Traditionally, Uzbekistan's workforce has been oriented toward the largest sector of the economy, agriculture. However, over the past decade, while the agricultural workforce has continued to increase, the largest employment growth has occurred in light industry, food processing, and the service sector. Cotton remains the mainstay of Uzbekistan's agriculture, but crop diversification has occurred as Uzbek agricultural officials, in response to the demand for more foodstuffs, have placed greater emphasis on the production of cereals and grains. Industrial diversification, reflecting market forces, also has taken place. Coal production has fallen substantially, while oil, natural gas and electricity production have increased. Although Russia traditionally has been Uzbekistan's primary trading partner, the Uzbek government has sought to diversify its trade patterns. Uzbek foreign trade began to develop in the early 1990s, but the import of manufactured goods and luxury items led to trade deficits in 1996. To restrain the growth of this deficit, promote domestic production, and curb capital flight, the Uzbek government introduced im-

port substitution measures in 1996. Between 1996 and 2001, Uzbekistan's self-reliance measures profoundly impacted both its domestic and foreign markets.

Under the stern leadership of President Islam Karimov, the country's first and only president and a former communist party chief, Uzbekistan has become a highly authoritarian state. The executive branch dominates the administration, the legislature and the judiciary. The activities of non-governmental civic organizations as well as the media are tightly monitored and controlled by the government. Fundamental freedoms of speech, association and political expression are similarly limited by the government. However, strident political opposition, fueled by insurgency movements originating during the Afghanistan war and in the Tajik civil conflict, has grown increasingly active over the past decade, breaking into violence in the late 1990s. In response to the growth of political opposition, the Uzbek government mounted significant counter-insurgency efforts, which have had the effect of stifling civil and human rights. The 2001 World Bank Institute governance indicators ranked Uzbekistan in the bottom third percentile in all six key governance measures.²⁶

Still, Uzbekistan's political reform strategy has been the most successful in Central Asia in terms of supporting the political stability of the leadership. It remains to be seen though, if this strategy has succeeded in consolidating political support within the country. Critics of the Karimov regime claim that the government's stress on the "Uzbek path" with its go-slow approach to macroeconomic structural reforms has undercut the expected benefits of true market liberalization. Uzbekistan's strategy emphasizes: self-sufficiency in energy and food grains; the export of primary commodities, particularly cotton and gold; and the creation of an internally oriented services market. Fundamental reforms in agriculture, state enterprises, state procurement, and the financial sector, (including foreign exchange) have been postponed. The reforms that have been enacted primarily have benefited middle-level government officials who tend to support the Karimov regime. It is quite possible that the economic rationale of these policies was much less important than the political considerations.

In the mid-1990s, a significant political opposition emerged within Uzbekistan, fueled by popular dissatisfaction with stagnating incomes, government intervention in the economy, and a dearth of opportunities for meaningful participation in public affairs. As the Uzbek government consolidated political control during the mid-1990s with heavy-handed methods, some government opponents were drawn to Islam as a natural

counterforce to the new regime. Seeing this development as a threat, the Uzbek government identified Islam with the political opposition and began a series of campaigns aimed at isolating and neutralizing opponents of the regime by branding them as criminals, Islamic political fanatics and terrorists. The counterinsurgency campaign cast a wide net, ensnaring both the regime's legitimate and illegitimate opponents alike.

The situation in Uzbekistan changed dramatically following the September 11 terrorist attacks on the United States. The American response led to the formation of an international coalition to remove the Taliban from power. The realignment of strategic purpose in the region brought Uzbekistan's foreign policy closely into sync with the strategic policies of the United States in the region. This new coalition fundamentally altered Uzbekistan's role in international affairs. Central Asia, with Uzbekistan at its center, once again became a hotly contested area, a "Great Game" for influence in Asia. The country's prominent role in the U.S. formed international coalition brought Uzbekistan considerable international goodwill within the global diplomatic community. In March 2002, President Karimov met with President George W. Bush in Washington, D.C. and reaffirmed Uzbekistan's commitment to accountable, democratic government, an open economy, and the observance of international standards of civil rights. The year 2002 also witnessed a series of visits to Uzbekistan by high-level diplomatic and military delegations from a number of countries and international organizations, culminating with the visit to Uzbekistan by United Nations Secretary General Kofi Annan in October. Uzbekistan's political reform strategy clearly had acquired an international dimension to complement the domestic. The Uzbek government's increasing emphasis on the importance of conforming to international standards of practice created rising expectations for substantive change.

Conclusions

This survey of the structural reform policies pursued by the Central Asia republics since independence leads to a few general conclusions about the process of reform, and the role of deliberate government strategies in promoting it. The success in economic reforms has not been uniform, but it has been notable and in some countries, particularly Kazakhstan, significant. Economic reform strategies are never purely economic in the sense that they always entail some political consequences. Every reform strategy has a political aspect.

Reform is not free of risk. One of the most significant consequences of the disintegration of communism was the steep decline in government

revenues. Since independence the new leaders of the post-communist states have faced rising public expectations and declining financial resources. Even those reform-oriented leaders who sought to conduct real reforms found financing reform to be more challenging than expected. Financing reform, in fact, may be the single most difficult task confronting the political leader in any country undertaking post-communist transition. To support the changes they favor, political leaders must somehow mobilize resources, and this usually entails winning supporters and neutralizing opponents. The experience of the Central Asian states illustrates the myriad compromises involved in carrying out economic and political reforms.

Notes

¹ See Beverly Crawford, ed., *Markets, States, and Democracy: The Political Economy of Post-Communist Transformation* (Boulder: Westview Press, 1995); Richard Pomfret, *The Economies of Central Asia* (Princeton: Princeton University Press, 1995 NJ); and Roald Z. Sagdeev and Susan Eisenhower, eds., *Central Asia: Conflict, Resolution and Change* (Chevy Chase: CPSS Press, 1995).

² Janos Kornai, *The Socialist State: The Political Economy of Communism* (Princeton: Princeton University Press, 1992).

³ Strategy is defined here as way in which ends are brought into line with means.

⁴ Nursultan Nazarbaev, now president of Kazakhstan, is the former first secretary of the Kazakh republic communist party organization. Islam Karimov, now president of Uzbekistan, is the former first secretary of the Uzbek republic communist party organization. Saparmurat Niyazov, now president of Turkmenistan, is the former first secretary of the Turkmen republic communist party organization. Imomali Rakhmonov, now president of Tajikistan, is a former Kuliab region communist party official. His predecessor as president, Rakhmon Nabiev (who died under mysterious circumstances in May 1993), was the former first secretary of the Tajik republic communist party organization. Among the Central Asian leaders, only the president of Kyrgyzstan, Askar Akaev, did not belong to the former party *nomenklatura*, although in some respects even Akaev, a physicist who was trained in Leningrad, can be considered a member of the Soviet intellectual elite.

⁵ Freedom House is an international philanthropic research organization established in 1937 by Eleanor Roosevelt. It has grown to become one of the world's most respected research organizations on subjects of human rights and governance standards.

⁶ The Freedom House Annual Surveys measure progress toward democratic ideals on a seven-point scale for political rights and for civil liberties (with 1 representing the most free and 7 the least free). Changes in countries' scores from year to year are monitored via annual surveys. The political rights measurement addresses the degree of free and fair elections, competitive political parties, opposition with an important role and power, freedom from domination by a powerful group (e.g. military, foreign power, totalitarian parties), and participation by minority groups. The civil liberties measurement addresses the degree to which there is a free and independent media; freedom of discussion, assembly and demonstration; freedom of political organization; equality under the law; protection from political terror, unjustified imprisonment and torture; free trade unions, professional and private organizations; freedom of religion; personal social freedoms; equality of opportunity; and freedom from extreme government corruption.

⁷ The basic axioms of the Westphalian international system, following Grotius (1583-1645), assert that all states enjoy national sovereignty, sovereign equality, territorial integrity, and the right of non-interference in domestic affairs.

⁸ Nursultaqn Nazarbaev, *Kazakhstan-2030: Prosperity, Security and Ever Growing Welfare of all the Kazakhstanis* (Almaty: Ylim, 1997).

⁹ The expression “Kazakhstan government,” as opposed to “Kazakh government,” is sometimes used to avoid the implication of ethnicity. While ethnic Kazakhs make up more than a majority of the country’s population, other ethnic groups, including Russians, Ukrainians, Koreans, and many others, also make up the country’s citizenry. To use the term Kazakh government, some observers contend, implies a “government of Kazakhs.” One convention that has been adopted to avoid this problem is to refer to the “Kazakhstani government.” This expression does seem to imply generality and thus refers to the “government of Kazakhstan citizens.” However, the Kazakh language is a Turkic language, and the “ani” suffix is Persian in origin, not Turkic. Persian is not spoken in Kazakhstan. The expression, therefore, does not represent an indigenous form. In this chapter, for the sake of simplicity, I simply refer to the governments by the national names. I intend no ethnic exclusiveness with this convention.

¹⁰ Sally N. Cummings, *Kazakhstan: Centre-Periphery Relations* (London: The Royal Institute of International Affairs, 2000).

¹¹ One celebrated critique appears in the work of the former Chief Economist of the World Bank who came to see the international financial institutions’ policies as counterproductive. See Joseph Stiglitz, *Globalization and its Discontents* (New York: W. W. Norton, 2002).

¹² Population Reference Bureau 2001 World Population Data Sheet. Available on-line at www.prb.org.

¹³ Assessment materials on civil and human rights are drawn from the annual and periodic reports produced by Amnesty International, Freedom House, Human Rights Watch, and from the annual Country Reports on Human Rights Practices issued by the U.S. Department of State. See in particular the annual compilation on human and civil rights in post-communist countries, *Nations in Transit*. *Nations in Transit* appears annually under the editorship of Alexander J. Motyl, Arch Puddington, and Amanda Schmetzer and is published by Longman Publishers.

¹⁴ See the Governance Research Indicators Dataset maintained by the Governance Group at the World Bank Institute. These indicators are available on the internet at the World Bank’s site (www.worldbank.org).

¹⁵ International Monetary Fund, “Republic of Tajikistan: Recent Economic Developments,” *IMF Staff Country Report* no. 00/27 (March 2000), 50.

¹⁶ “UNHCR Report on Tajikistan,” “January 1993-March 1996”; United Nations High Commissioner on Refugees, May 1996, 4. Also see “Return to Tajikistan, Continued Regional and Ethnic Tensions,” *Human Rights Watch/Helsinki* (HRW/H), 7, no. 9, (May 1995), 4-7.

¹⁷ The ranking in the Human Development Index of the *UN Human Development Report* in 1997 was 115; in 1998 it was 118. Tajikistan rose in the 1999 HDI rank to 108. The 2000 HDI ranking was 110.

¹⁸ IMF, “Republic of Tajikistan—Recent Economic Developments,” *IMF Staff Country Reports* no. 96/55 (July 8, 1996).

¹⁹ IMF, “Republic of Tajikistan—Recent Economic Developments,” *IMF Staff Country Reports* no. 98/16 (February 11, 1998).

²⁰ Tax offsets occur when enterprises that supply the government with goods and services are not paid in cash but in compensating reductions of tax payments. Non-monetized transactions are more likely to lack transparency than cash transactions.

²¹ See *Attacks on the Press in 1999* (New York: The Committee to Protect Journalists (CPJ), 2000).

²² Population Reference Bureau, “2001 World Population Data Sheet.” Available on-line at www.prb.org.

²³ Governance Research Indicators Dataset maintained by the Governance Group at the World Bank Institute (<www.worldbank.org>).

²⁴ Although official accounts are contradictory, the Turkmenistan government has claimed that four former government ministers organized an armed attack on the Turkmen president on November 25, 2002. A group of gunmen were said to have fired shots at the President's motorcade after a truck blocked the path of the president's car. The following day, the Turkmenistan government claimed to have arrested 16 people in connection with the assassination attempt. On December 2, the General Prosecutor, Gurbanbibi Atajanova, announced that 23 people had been arrested for involvement in the coup attempt. According to Atajanova, the government discovered proof that former Foreign Minister Boris Shikhmuradov masterminded the assassination plot from Russia in order to take political power himself. On December 18, Atajanova provided a public report on Turkmenistan national television in which she detailed a sequence of events and claimed that Boris Shikhmuradov directed the assassination attempt from inside Turkmenistan. She further claimed he had entered the country November 23, from Uzbekistan, with the help of the Uzbek Ambassador to Turkmenistan, Abdurashid Kadyrov. The report claimed that Shikhmuradov, together with other conspirators, remained in hiding in the Uzbek Embassy until December 7. On December 24, a website under the direction of Shikhmuradov issued a statement which claimed that Shikhmuradov had been in Turkmenistan since September 2002. On December 25, Turkmen President Niyazov announced that Boris Shikhmuradov had been captured. Four days later, Turkmen national television aired footage of Shikhmuradov in a purported confession admitting to masterminding the assassination attempt. A chilling account of these events is available in Emmanuel Decaux, "OSCE Rapporteur's Report on Turkmenistan," OSCE Office for Democratic Institutions and Human Rights (March 12, 2003).

²⁵ Population Reference Bureau, "2001 World Population Data Sheet." Available on-line at www.prb.org.

²⁶ See the Governance Research Indicators Dataset maintained by the Governance Group at the World Bank Institute. These indicators are available on the internet at the World Bank site (<www.worldbank.org>).