

CHAPTER 2

ECONOMIC REFORM AND PERFORMANCE IN CENTRAL ASIA

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INTRODUCTION

This chapter analyses the economic reforms undertaken by the five Central Asian countries which became independent following the dissolution of the Soviet Union in December 1991. For Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan the completely unexpected challenges of nation-building were superimposed on the transition from a centrally planned economy, which had begun in the late 1980s but had little influence on Central Asia before the Soviet economic system began to unravel in 1991. The indigenous capacity for economic management was limited because during the Soviet era development strategies were determined in Moscow. The region had been planned as a single unit, or perhaps more accurately as parts of the single unit, that had been the Soviet economy, and all five countries suffered serious disruption from the replacement of the USSR by fifteen independent countries. Attempts to maintain economic links by retaining the ruble as a common currency in 1992-3 exacerbated the problem of hyperinflation and had to be abandoned by the end of 1993. The decade of the 1990s was then devoted to nation-building, and establishing post-Communist political and economic systems.

In the decade following independence, political and economic reforms followed different patterns in each of the five countries of Central Asia, but by the early twenty-first century all five countries had essentially completed the process of nation-building and the transition from central

planning.¹ Political change occurred, but the political systems that emerged in the Central Asian countries were among the least-reformed amongst the Soviet successor states. In four of the countries First Secretaries appointed by Mikhail Gorbachev remained in power as Presidents, and in Tajikistan political development since the Civil War has been towards consolidation of the powers of a strong presidential regime. Within the common bounds of resource-based economies and autocratic regimes, the five countries gradually became more differentiated as their governments adopted surprisingly diverse strategies for transition to a market-based economy.

The Kyrgyz Republic was one of the most liberal and rapidly reforming transition economies. One indicator is that, in July 1998, it became the first Soviet successor state to accede to the World Trade Organization.² Kazakhstan in the early 1990s appeared to be accompanying the Kyrgyz Republic on a liberal path, but the president became more autocratic as the decade progressed and the economy became dominated by a small group of people who controlled the media and the banks. Kazakhstan is considered a reformist regime, although the country has many similarities to Russia in the way that privatization created powerful private interests that distorted the reform process (Kalyuzhnova, 1998; Olcott, 2002).³ The other three Central Asian countries were slower to stabilize the economy, and were more suspicious of market forces. Turkmenistan's regime became increasingly personalized and autocratic, pursuing a policy of neutrality and economic independence, with minimal economic reform

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

² The Kyrgyz Republic's image as an "island of democracy" in Central Asia became tarnished in 1994-6 when President Akayev ruled by decree in order to push through what he considered necessary legislation. Opponents were intimidated and opposition media suppressed. The October 2000 election, in which Akayev was returned to power, was viewed by outside observers as flawed. Nevertheless, the media is more open than elsewhere in Central Asia, and the feeling of oppression is less than in some of the Kyrgyz Republic's neighbours. Since autumn 2001, when the government ceded 95,000 hectares of territory to China, and March 2002, when demonstrations in the south were forcibly suppressed with six deaths, opposition to the regime has become more pronounced.

³ An important difference to Putin's Russia is the personal wealth of the President and his relatives, which is more reminiscent of Soeharto's Indonesia. Since the turn of the century, it is unclear how strong the position of the financial/economic/media groups is, and whether the President is the biggest oligarch or the defender of the public interest against the ten mega-holdings which control over four-fifths of the economy (a claim made, for example, in President Nazarbayev's speech opening Parliament on 3rd November 2004).

(Ochs, 1997; Lubin, 1999; Pomfret, 2001). Uzbekistan has remained a tightly controlled political system, but with nothing resembling the personality cult of Turkmenistan, and its economic reforms have been similarly modest and unassuming. During the 1990s Uzbekistan, although a gradual reformer, was the most successful of all Soviet successor states in terms of output performance (Pomfret, 2000; Spechler, 2000). Tajikistan was in a different category, because it was the only country not to evolve peacefully from Soviet republic to independent state under unchanged leadership. The bloody civil war of 1992-3, which reignited in 1996-7, dominated political developments and delayed implementation of a serious and consistent economic strategy for most of the 1990s, but Tajikistan is considered to be a delayed reformer since the 1997 peace agreement.

The five countries' economic performance has differed, to some extent reflecting policy choices, but since 2000 the comparative situation has been complicated by the global boom in oil prices. During the 1990s Kazakhstan's output performance was inferior to Uzbekistan's, but since the turn of the century Kazakhstan, a significant oil producer, has experienced an economic boom. Turkmenistan, despite its abundant natural gas reserves, suffers from its dependence on Soviet-era pipelines that are now controlled by a Russian monopoly. The energy boom appears to have alleviated pressures to change the country's poor economic policies, but the opaque statistical situation in Turkmenistan makes any definite judgment hazardous.⁴ Both gradual-reforming Uzbekistan and rapid-reforming Kyrgyz Republic have enjoyed less spectacular growth, and have clearly lower living standards than Kazakhstan. Tajikistan is even worse placed; the economy has recovered slowly from a very deep trough, and Tajikistan now ranks among the world's poorest nations.⁵

⁴ The reliability of data is an issue throughout this region, but, apart from the war years in Tajikistan, the situation is clearly worst in Turkmenistan. The figures quoted in the Tables are from international institutions, and it is important to stress that, while these organizations adjust data for definitional consistency, the raw data come from national sources and international organizations have no way of correcting undisclosed collection or reporting biases.

⁵ By 2000, Tajikistan with a national income per capita of \$180 was poorer than most of sub-Saharan Africa or the poorest countries of Asia. At purchasing power parity the Central Asian countries' incomes are higher. Tajikistan's 2000 GNI per capita at PPP was \$1090. Corresponding figures for the Kyrgyz Republic were \$270 and \$2540 (PPP), for Uzbekistan \$360 and \$2360 (PPP), for Turkmenistan \$750 and \$3820 (PPP), and for Kazakhstan \$1260 and \$5490 (PPP). These figures are from the World Bank's *World Development Indicators 2002*. As emphasized below, care needs to be taken in interpreting the national accounts data, and PPP conversions are even less firmly based. By Maddison's PPP estimates, Tajikistan's 1998 per capita GDP of I\$830 (Table 1b) was about the same as that of

The next section provides a brief review of the historical background and an overview of the five countries' post-independence macroeconomic performance. Despite the similarities in initial conditions, national economic policies and economic performance have differed substantially since independence, and section 2 attempts to evaluate the connection between differences in economic reforms and in macroeconomic outcomes. All five countries specialize in primary products and have open economies, and section 3 traces developments in the countries' international economic relations, focusing on the choice between various regional options and multilateralism. Section 4 examines the situation since September 2001, when Central Asia assumed a higher profile on the world stage. The final section draws conclusions.

SOVIET BACKGROUND AND MACROECONOMIC PERFORMANCE DURING THE FIRST DECADE AFTER INDEPENDENCE

The five countries contain almost 60 million people: 26 million in Uzbekistan, 15 million in Kazakhstan (which has a larger GDP than Uzbekistan), and 5–7 million each in the Kyrgyz Republic, Tajikistan and Turkmenistan. From being part of one of the two superpowers and believing themselves to be living in an economically developed country, their citizens have suffered traumatic declines in living standards, increased economic uncertainty, and growing inequality and poverty.

The Soviet economy was planned as a single unit in which goods and services moved without attention to republic borders. At the same time as being open to intra-USSR trade the republics were closed to external trade. Thus, although their ratio of trade to output was comparable to that of similar-sized Canadian provinces, the share of international trade in the Central Asian republics' total trade was small (10–15%, compared to 34–61% for Canadian provinces).⁶ The inward-oriented trade patterns within the centrally planned Soviet economy were reinforced by transport, pipeline, and other communications facilities, which all led to Russia or passed through a Moscow hub. The economic role of the Central Asian republics was primarily as a supplier of raw materials to the more industrialized areas

Haiti or Bangladesh, only Afghanistan had lower per capita GDP in Asia, and in Africa only thirteen of the 42 countries for which Maddison provides estimates had lower per capita GDP than Tajikistan.

⁶ International Monetary Fund *Common Issues and Interrepublic Relations in the Former USSR* (Washington DC, April 1992), p.37.

of the Soviet Union. The focus on cotton was strengthened, especially after construction began on the Karakum Canal in the 1950s, but it was complemented by the exploitation of energy and mineral resources and by some industrial development. The social sectors were also expanded, leading to universal literacy and increased life expectancy.

The five Central Asian republics were, with Azerbaijan, the poorest Soviet republics (Table 1). After the dissolution of the USSR, the Central Asian countries were among the Soviet successor states most subject to a severe negative economic shock. None had anticipated the dissolution of the Soviet Union before its final months, and all were totally unprepared for the severing of Soviet ties. Demand and supply networks based on uncosted transport inputs quickly collapsed in the early 1990s. The shift to world prices notionally benefited the energy exporters, Kazakhstan and Turkmenistan (Table 1, final column), but in the short-term the two countries were unable to realize these gains due to their dependence on Russian pipelines.

Table 1: Republics of the USSR: Initial Conditions

<i>Republic</i>	<i>Population (million) mid-1990</i>	<i>Per cap GNP^a (1990)</i>	<i>Gini Coeff (1989)</i>	<i>Poverty (% of pop)^b (1989)</i>	<i>Terms of trade^c</i>
USSR	289.3	2870	0.289	11.1	
Kazakh	16.8	2600	0.289	15.5	+19
Kyrgyz	4.4	1570	0.287	32.9	+1
Tajik	5.3	1130	0.308	51.2	-7
Turkmen	3.7	1690	0.307	35.0	+50
Uzbek	20.5	1340	0.304	43.6	-3
Armenia	3.3	2380	0.259	14.3	-24
Azerbaijan	7.2	1640	0.328	33.6	-7
Georgia	5.5	2120	0.292	14.3	-21
Belarus	10.3	3110	0.238	3.3	-20
Moldova	4.4	2390	0.258	11.8	-38
Russia	148.3	3430	0.278	5.0	+79
Ukraine	51.9	2500	0.235	6.0	-18
Estonia	1.6	4170	0.299	1.9	-32
Latvia	2.7	3590	0.274	2.4	-24
Lithuania	3.7	3110	0.278	2.3	-31

All five countries suffered from disrupted supply chains and higher prices for imports. Imminent economic collapse was signaled in falling output and rising prices in 1991 (Tables 3 and 4), but it would become much

worse after formal dissolution of the USSR removed residual central control over the Soviet economic space.

There is little doubt that the people of Central Asia experienced a huge economic shock in the early 1990s. Measuring the size of the economic decline both across countries and over time is, however, problematic.⁷ The issues are especially pressing for the first half of the 1990s, but they affect our assessment of the entire post-independence period because measures of, say, GDP which relate a year to a stable base year, usually 1989 or 1991, are more useful than the volatile annual growth rates (Table 3).

The most used aggregate measures are the real GDP estimates reported by international agencies. Even if these capture output trends, they may fail to capture the decline in living standards in the early 1990s when resource flows from the rest of the USSR were cut off. Later in the 1990s the Kyrgyz Republic benefited from substantial capital inflows from multilateral and bilateral official sources, but the other Central Asian countries received little net capital inflow, apart from military assistance to Tajikistan and some direct foreign investment in Kazakhstan. In sum, gross national expenditure probably fell by far more than GDP in the early 1990s.⁸

The output figures are subject to a number of serious conceptual problems. The output mix was substantially transformed after the end of central planning, as major producers collapsed and new goods and services appeared, raising index number issues including the extreme problem of valuing new or obsolete goods and services.

⁷ The remainder of this section is based on Pomfret (2003b). Reviewing the measurement issues Bloem et al. (1998) conclude that there is no reason to expect the biases to cancel out and that in most transition economies the under-reporting effect is dominant, so that post-transition output is under-estimated. International comparisons for the years up to 1993 are plagued by the problem of which exchange rate to use to convert ruble amounts into a convertible currency (Pomfret, 1995, 171-2).

⁸ The interrepublic flows in the USSR are difficult to measure because the Soviet economy was treated as a single unit and large flows took place within all-Union enterprises. Outsiders have estimated the net flow to the Kyrgyz republic in the late 1980s at around a seventh of the republic's gross product (Pomfret, 1995, 72; Griffin, 1996, 19), but Central Asian economists have argued that the net inflow was much smaller or even that Central Asia subsidized the rest of the USSR through Moscow-manipulated transfer pricing (Islamov, 2001).

Table 2. Republics of the USSR : Maddison's Estimates of per capita GDP at Purchasing Power Parity,

Country	1973			1990			1998		
	Pop	GDP	GDP per capita.	Pop.	GDP	GDP per capita.	Pop.	GDP	GDP per capita.
USSR	249.7	1,513	6,058	289.4	1,988	6,871	290.9	1,132	3,893
Kazakh	13.8	105	7,593	16.7	122	7,305	15.6	75	4,809
Kyrgyz	3.2	12	3,702	4.4	16	3,592	4.7	10	2,042
Tajik	3.2	13	4,105	5.3	16	2,995	6.1	5	830
Turkmen	2.4	11	4,795	3.7	13	3,626	4.8	8	1,723
Uzbek	13.1	67	5,118	20.5	87	4,264	24.1	79	3,296
Armenia	2.7	17	6,189	3.3	20	6,142	3.8	13	3,341
Azerbaijan	5.5	24	4,458	7.1	33	4,681	7.7	16	2,135
Georgia	4.9	29	5,894	5.5	41	7,569	5.4	15	2,737
Belarus	9.2	48	5,234	10.3	73	7,153	10.2	59	5,743
Moldova	3.7	20	5,379	4.4	27	6,211	3.6	9	2,497
Russia	132.7	872	6,577	148.3	1,151	7,762	146.9	664	4,523
Ukraine	48.3	238	4,933	51.9	311	5,995	50.3	127	2,528
Estonia	1.4	12	8,656	1.6	17	10,733	1.5	15	10,118
Latvia	2.4	19	7,780	2.7	26	9,841	2.4	15	6,216
Lithuania	3.2	25	7,589	3.7	32	8,591	3.7	22	5,918

- Notes:
- (a) GNP per capita in US dollars, computed by the World Bank's synthetic Atlas method;
 - (b) poverty is defined as individuals in households with gross per capita income less than 75 rubles;
 - (c) impact on the terms of trade of moving to world prices, calculated at a 105-sector level of aggregation using 1990 weights;
 - (d) the annual increase in the consumer price index, end of year.

Sources: columns 1 and 2, World Bank; columns 3 and 4, Atkinson and Micklewright (1992, Table U13), which is based on Goskomstat household budget survey data; column 5, Tarr (1994).

*Pop is the short for Population

Table 3: Growth in Real GDP 1989-2004 (per cent)

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

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

	1998	1999	2000	2001	2002	2003	2004	2003; 1989=100
Kazakhstan	-2	3	10	14	10	9	7	101
Kyrgyz Rep	2	4	5	5	0	7	4	78
Tajikistan	5	4	8	10	9	10	6	66
Turkmenistan	7	17	18	12	5	11	9	110
Uzbekistan	4	4	4	4	4	1	3	110

Source: European Bank for Reconstruction and Development Transition Report Update, April 2004, 16.

Notes: 2003 = preliminary actual figures from official government sources. Data for 2004 represent EBRD projections.

Apart from the issue of choosing appropriate relative prices, there is also a practical problem of using aggregate price indices during the years of hyperinflation. Nobody would claim that the numbers for 1991-5 in Table 3 are in any sense precise and whether annual inflation is 1500% or 2000% makes little economic difference, but it affects calculations of real GDP.

On the quantity side, data collection problems reflect the low priority given to statistical offices during the initial period of nation-building,⁹ and the changing incentives to reporting. During the Soviet era managers pressed to meet plan targets often over-reported output. They also included in output some items that were of no practical value.¹⁰ In a market economy, the latter, what Balcerowitz has called “pure socialist goods”, should have zero weight in GDP. After the transition to a market-based economy, the incentives shifted towards under-reporting in order to avoid taxes or other unwanted attention from the government.

There was, of course, underreporting in the Soviet era, especially of production on household plots, and services were not included in the net material product. The difficulty is not just that the extent of under-reporting is higher now, but that it is non-random. The more market-oriented economies are likely to have larger service sectors. The shadow economy has expanded throughout the region and by its nature is difficult to measure, but all available estimates suggest a dichotomy between the large shadow economies of the Kyrgyz Republic, Tajikistan and Kazakhstan and the smaller shadow economies in Uzbekistan and Turkmenistan. An extreme published estimate has the shadow economy of the Kyrgyz Republic producing twice as much as the official economy (Eilat and Zinnes, 2002), which if true would imply that the Kyrgyz GDP in 2000 had more than doubled since 1991 rather than being four-fifths of its 1991 level.

⁹ Filer and Hanousek (2002) emphasize the improved capabilities of national statistical offices, but these have improved at varying speeds and to varying degrees so that cross-country comparisons are distorted by the stage which statistical office upgrading has reached in each country at each point in time.

¹⁰ The Uzbek republic was notorious for over-reporting, and the first target of Mikhail Gorbachev's anti-corruption drive was the Uzbek elite which had channeled into the republic billions of rubles in payment for non-existent cotton. After independence the disgraced First Secretary, Sharof Rashidov, became a national hero. Not all over-reporting was dishonest; between 1958 and 1991 around one billion dollars worth of mechanical cotton harvesters, at 1960 prices, were produced in Central Asia, whose real value to the farms receiving them was close to zero because under Central Asian conditions hand-picking was the most efficient technique (Pomfret, 2002a), but Soviet planners believed in the superiority of mechanical picking.

Table 4: Inflation (change in consumer price index) 1991–2000 (per cent)

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

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

	1998	1999	2000	2001	2002	2003	2004
Kazakhstan	7	8	13	8	6	6	7
Kyrgyz Rep	1	36	19	7	2	3	6
Tajikistan	43	28	33	39	12	16	11
Turkmenistan	17	24	8	12	11	7	9
Uzbekistan	29	29	25	27	28	10	12

Source: European Bank for Reconstruction and Development Transition Report Update, April 2004, 17.

Notes: 2003 = preliminary actual figures from official government sources. Data for 2004 represent EBRD projections.

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

Despite this catalogue of problems, the data in Table 2 continue to be used. This is primarily because the general patterns correspond with other evidence, including casual observation.¹¹ The economic decline in Tajikistan has been traumatic, and living standards have fallen to the levels of the least developed countries. Kazakhstan and the Kyrgyz Republic both suffered substantial setbacks during the first half of the 1990s, although the extent is debatable, and both economies have been growing since then, with the Kazakh economy especially buoyant with the high oil prices of the early 2000s. Uzbekistan is the main economic puzzle. Its relatively good GDP performance during the 1990s may in part be a statistical artifact due to fewer under-reported unofficial activities and some overvaluation of the official economy, but even the regime's critics acknowledge that this is not the whole explanation (Taube and Zettelmeyer, 1998). The Uzbek economy genuinely suffered a smaller transitional recession than other former Soviet republics. Contrary to some predictions, it experienced positive economic growth after the mid-1990s, although its performance is less good since the turn of the century. Turkmenistan's performance is the most controversial, and independent checks on official data are scarce; despite positive GDP figures the country seems to have suffered palpable economic decline. However, energy revenues and political stability have contributed to it being less dramatic than in Tajikistan.

¹¹ The household survey data are analyzed in Anderson and Pomfret (2003). Rapid surveys were used to assess immediate needs in the early 1990s (eg. Howell (1996) on the southern districts of the Kyrgyz Republic) and more recently qualitative methods have been used to conceptualize interactions between social, economic and psychological elements of changes in living standards (see, for example, the chapters by Kuehnast on the Kyrgyz Republic and by Gomart on Tajikistan and Uzbekistan in Dudwick et al., 2003), but both of these approaches rely on small and possibly unrepresentative samples which make generalization of the results difficult. Nevertheless, the patterns of traumatic economic decline during the first half of the 1990s, especially outside the capital cities, are incontrovertible.

ECONOMIC REFORM AND ECONOMIC PERFORMANCE

The phenomenon of the former USSR countries abandoning central planning within a few years of one another raised the question of what separated the more successful from the less successful transition economies. The initial debate was over the speed and extent of reform. The econometric evidence has been inconclusive over whether performance is related to reform or whether initial conditions are crucial. The eastern European countries as a group outperformed the CIS countries, but whether that reflects superior policies or better initial conditions is difficult to identify.¹²

That is not to say that we have learned nothing from the econometric studies. Conflict has been bad for growth, and much of the econometric debate over the impact of reform has depended upon how conflict enters the estimating equation. Countries with civil or interstate wars have been slow reformers and had a poor growth record. High inflation is bad for growth, although moderate inflation is less clearly harmful.¹³ Although there are debates about the threshold, all transition economies quickly recognized the costs of hyperinflation. Whether they were committed to structural reform, they all sooner rather than later attacked hyperinflation with standard monetary policy weapons. This led to the fading away of debates over the need for “shock therapy”, as all new market economies acknowledged the desirability of the macroeconomic policy component of Washington Consensus policies – at least when they had three- or four-digit annual inflation.

A complement to the econometric work is national case studies. The Central Asian countries offer a fascinating natural experiment, with their fairly similar initial conditions and radically different approaches to creating market-based economies. On more detailed investigation, the situation is less clear than this simplified characterization suggests. Initial conditions

¹² The econometric literature is reviewed in Pomfret (2002b, 90-3) and in World Bank (2002). Among the studies finding a primary role for reform policies are a series of papers by IMF economists (eg. Fischer, Sahay and Végh, 1998; Fischer and Sahay, 2000). Initial conditions are the strongest determinants in the econometric work of EBRD economists Falcetti, Raiser and Sanfey (2000), although they find that some countries defied the odds by performing better, or worse, than initial conditions suggested and that the effect of initial conditions diminishes over time.

¹³ The idea of a threshold value beyond which inflation is harmful to growth was popularized by Bruno and Easterly (1998), although their threshold of forty percent now appears too high. Focusing only on transition economies, Christoffersen and Doyle (1998) estimated a threshold of thirteen percent.

did vary, ranking by degree of reform is not as straightforward as simple transition indices suggest, and policymaking has not always been consistent over time. The following subsections analyze each of the five countries' economic reform record and economic performance since independence.

Kazakhstan

At independence Kazakhstan appeared to be the best placed among the Central Asian countries. Per capita incomes were substantially higher than those of the four southern countries, and this was reflected in higher education and other human capital indicators. Moreover, the resource endowment, with substantial energy and mineral resources which were under-priced in the USSR, held great potential. Indeed, the oil reserves were about to be tapped by the Chevron-Tengiz project which was the largest foreign investment agreement signed in the Soviet Union. In 1992 Kazakhstan took the lead in economic reform, following Russia's price reform with fewer exceptions than other Central Asian countries.

Kazakhstan did, however, face two serious obstacles. It was the only Central Asian country where the titular nationality was not in the majority. In the 1989 census the population was approximately two-fifths Kazakh, two-fifths Russian and one-fifth other ethnic groups. Following the dissolution of the USSR, Kazakhstan experienced a brain drain as the substantial German population sought to take advantage of Germany's blood-related citizenship law. Many of the Russian population, fearing Kazakhization, also chose to emigrate. The emigrants were not randomly drawn, as they tended to come from among the better educated, thus eroding Kazakhstan's human capital advantage. The large remaining Russian population was heavily concentrated in the north and east, close to the Russian border, and posing a potential secessionist threat, which has had a powerful political influence. Kazakhstan's president has been the major advocate of retaining some form of common economic space with Russian and, domestically, the national capital was relocated from Almaty in the southeast to Astana in the centre north at large cost.

The second obstacle to fulfilling Kazakhstan's economic potential was connected to the oil sector. The only outlets for Kazakhstan's oil were pipelines through Russia, and Russia exploited its monopoly position by regulating flows and levying high tariffs. Despite many plans for alternative pipelines, the position remains essentially unchanged even a decade after independence. Small amounts of oil are shipped across the Caspian Sea but the maximum is still being exported by Russia. Only after 2001 has this situation shown signs of changing (Pomfret, forthcoming).

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

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

Since 1999 the economic situation in Kazakhstan has turned around. The recovery from the 1998 crisis was driven by market forces and by good fortune. The sharp real depreciation of the currency stimulated exports and helped to validate policymakers' understanding of market mechanisms. At the same time, buoyant world oil prices in the early 2000s reinforced the positive trade developments. At the same time, new offshore oil discoveries, including the largest new oilfield to be found in the world for over thirty years, and new pipeline routes have created unbounded optimism. The booming economy has been accompanied by harbingers of a civil society, reflecting Kazakhstan's relatively high human capital. Although the regime remains autocratic and dissent is punished, the president is facing growing pressures for accountability of himself and his entourage.¹⁴

¹⁴ The opposition has been led by powerful political figures who have defected from the government, often in response to the centralization of power in the President's family, and by businessmen, who gained from the 1990s privatization and now want to strengthen the rule of law in order to protect their gains. The "New Kazakhs" opposition became more open in late 2001, and the government responded harshly in 2002, but the subsequent stand-off reflected the strength of the opposition. Corruption scandals undermine the government, especially the "Kazakhgate" affair associated with a concealed Swiss bank account into which President Nazarbayev has reportedly deposited over a billion dollars in oil revenues and which is the subject of inquiries by US prosecutors. Again after the Ukraine elections of December 2004, Kazakhstan's government reacted harshly, closing down one of the main opposition parties, but the situation remains fluid.

The Kyrgyz Republic

The Kyrgyz Republic, like Tajikistan, was a poor mountainous Soviet republic with few natural resources. Its economy was tightly linked to the Union economy and suffered substantially from the dissolution of the USSR¹⁵. Although the Kyrgyz were in the majority there was a large Slav minority in the north and a large Uzbek population in the south of the country. In the Soviet era the republic was associated with economic backwardness and conservatism, although an idiosyncratic development was the appointment in 1990 of a physics professor as First Secretary.

From 1993 to 1998 the Kyrgyz Republic was by far the most reformist of the Central Asian republics. Whether this was because its president was the most liberal or whether he had fewest options is debated. In May 1993 the Kyrgyz Republic was the first Central Asian country to replace the ruble by a national currency, and unlike the other countries this was explicitly part of an economic reform program. The Kyrgyz Republic received the most support from the international financial institutions, and following their standard policy recommendations brought annual inflation down below 50% in 1995 (compared to 1996 for Kazakhstan, and later elsewhere in Central Asia). Prices were liberalized, the currency made convertible, and tariffs reduced. In July 1998 the Kyrgyz Republic became the first Soviet successor state to accede to the WTO.

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

Economic performance was similar to that of Kazakhstan, with a substantial output decline followed by economic growth in 1996 and 1997. Whether this was a better achievement depends on a comparison of the initial conditions, which many saw as less favorable in the Kyrgyz Republic,

¹⁵ The largest single enterprise, a sugar refinery which accounted for 3% of GNP in 1991, used cane sugar from Cuba as the raw material and this supply link broke down completely. Other large industrial enterprises were part of the Soviet military-industrial complex and also encountered breakdown of their demand and supply chains after 1990.

and on evaluation of the role of foreign assistance. The Kyrgyz Republic was successful in cutting inflation, and yet it ran large fiscal deficits as tax revenues fell and public expenditures were not reduced in line; the general government budget deficit was reduced from a high of 17% of GDP in 1995 but was still 10-11% of GDP in 1999-2000 (Mogilevsky and Hasanov, 2004, 227). The situation was sustained by substantial IMF and World Bank financial aid, which enabled the central bank to limit inflationary financing of the budget deficit, but which led to a rapid build-up of external debt.

The fragility of the Kyrgyz economy was exposed by the 1998 Russian crisis. Although the Kyrgyz economy was less closely linked to Russia than Kazakhstan's economy was, the contagion effects were strong because the Kyrgyz financial sector was weak. Three of the country's four largest banks were liquidated in 1998/9 and banking sector assets fell from \$160 million to \$90 million at the end of 2000, i.e. from ten percent of GDP to seven percent. The apparently extensive financial reforms of the mid-1990s were revealed to be fragile, and this was symbolic of much of the reform structure (Pomfret, 2003a).

One consequence of the financial crisis was to stimulate a rethinking of economic policies. Concerns over the country's rising debt burden also contributed to rethinking of the adherence to the policies recommended by the international financial institutions. After 1998, economic reforms were more or less placed on hold, although they appear to be moving forward again in recent years.

Economic performance in the Kyrgyz Republic has been difficult to evaluate. Its role as the reform leader in Central Asia led many to anticipate healthy growth. That this was not realized could be ascribed to poor initial conditions, poor implementation of reforms, or not staying on course after 1998. It may also be the case that the GDP figures understate actual performance. Certainly in the north, there is some economic vibrancy in Bishkek and in the resort areas of Lake Issykul, which cater to rich Kazakhs as well as the better-off domestic population.

Tajikistan

Tajikistan shared many of the Kyrgyz Republic's disadvantages, but these were compounded by a civil war in which tens of thousands were killed and half a million people were displaced in the first year after independence. The war fluctuated over the next five years until the 1997 peace agreement brought opposition parties into the government. During the war period roads, bridges and other infrastructure were destroyed, and

much has still not been repaired. Many men left the country either for economic reasons or to avoid the draft.

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

Economic performance has been disastrous in Tajikistan. Output fell by two thirds in the early and mid 1990s. Lack of economic opportunity led many men to migrate to Russia in search of work and, because their remittances were largely brought back as cash and unreported, it is difficult to estimate how much this contributed to incomes.¹⁶ Foreign assistance, mainly from Russia, was primarily military aid, which contributed little to the economy apart from leaving Tajikistan with the highest debt/GDP ratio of any Soviet successor state. Although some recent years have seen some high annual growth rates, this is indicative of the low base rather than of real economic achievement.

Turkmenistan

The Turkmenistan economy, although historically one of the poorest republics in the USSR, experienced rapid growth during the final decades of the Soviet rule. Construction of the Karakum Canal which begun in the 1950s greatly increased the land area under cotton. In the 1980s natural gas production had been greatly increased. The shift from Soviet to world prices offered larger terms of trade gains to Turkmenistan than to any other Soviet successor state (Table 1).

Turkmenistan has the most personalized and autocratic regime in Central Asia. The president's absolute power is supported by control over the cotton and energy rents. Soon after independence he adopted a populist strategy of providing free water, electricity, gas, heating, salt and other

¹⁶ Many of the temporary emigrants have not sent remittances and appear to be establishing permanent residence in Russia, further complicating the impact on per capita income in Tajikistan.

necessities up to certain limits intended to include most household consumption. He pursued a development strategy of import-substituting industrialization, centred on increasing value-added in the energy and cotton sectors.

The economic strategy was, however, undermined by the inherited infrastructure, which directed energy exports exclusively to the CIS. The monopsonistic buyers quickly ran up substantial arrears,¹⁷ which Turkmenistan eventually addressed by the drastic measure of ceasing supply between 1997 and 1999. This is reflected in the pattern of GDP growth, but Turkmenistan's economic problems run deeper than a simple strategic blip in the late 1990s.

The economy is essentially unreformed. The central planning mechanisms were formally ended by Gorbachev and in any case broke down in the early 1990s, but a functioning market economy has not been created. As far as possible the president retains control over resource allocation decisions, which is relatively easy given the simple structure of the economy with its high dependence on energy and cotton exports, but is very inefficient. Repressive agricultural policies (Pastor and van Rooden, 2000) and poor management have led to cotton yields falling by much more than in neighbouring Uzbekistan. The import substitution projects probably have negative value added (Pomfret, 2001). The energy sector is more opaque; despite continuing to attract foreign interest, it is hardly flourishing.

The data for Turkmenistan are the least reliable among all the transition economies and are manipulated for political impact. Nevertheless, it is clear to any observer that economic conditions have deteriorated substantially since independence, especially outside the capital city. Turkmenistan provides the strongest evidence that non-reform, autocracy and poor economic management is a recipe for economic decline.

Uzbekistan

Uzbekistan is, with twenty-six million people, the most populous of the Central Asian countries and its record since independence is the most controversial. Initial conditions were at first seen as neutral and its

¹⁷ The arrears complicate Turkmenistan's national accounts because gas sales are recorded as exports valued at the contract price. The arrears appear in the capital account of the balance of payments as capital outflows from Turkmenistan, even though the foreign assets being accumulated were worth far less than their face value. The actual accounts are extremely opaque because revenues received from energy and cotton exports go into off-budget funds under the president's personal control.

economic reforms have been cautious, but during the 1990s its economic performance by the usual measures was the best of all former Soviet republics, including the rapidly reforming and geographically advantaged Baltic countries. The Uzbek government has had frosty relations with the international financial institutions, and this may have clouded judgments of what has become known as the Uzbek puzzle.

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

Another favorable initial condition whose value is clearer *ex post* was Tashkent's position as the regional capital of Soviet Central Asia. At a physical level, the principle that the Soviet successor states inherited assets in their territory meant that Uzbekistan gained the biggest air fleet and most military equipment in Central Asia. After some initial hiccups, Uzbekistan Airways emerged as the only competitive international airline in Central Asia and remains one of the few state enterprises to have been successful in the new economic environment. Less tangibly, but perhaps more important, Uzbekistan inherited the most effective administrators in the region. Whether truly an initial condition or a result of technocratic leadership, good economic management is reflected in several features distinguishing Uzbekistan from its neighbors.

The physical infrastructure has been relatively well kept up, both in the domestic transport network and in the irrigation canals that are crucial to the cotton economy. Corruption is widespread in all of Central Asia, but available evidence suggests lower levels in Uzbekistan than in the other four countries,¹⁸ implying more effective central control and (admittedly by the low standards of the region) a relatively high sense of public service.

The history of regional administration has contributed to a stronger sense of independence in policy making. Uzbekistan has been skeptical of foreign advice, and unwilling to accumulate foreign debt, so its relations with the international financial institutions have been frosty. Uzbekistan

¹⁸ See, for example, the results of the Business Environment and Enterprise Performance survey reported in the European Bank for Reconstruction and Development's *Transition Report 1999*. Among the twenty transition economies covered by the BEEPS, Uzbekistan ranked about fourth for lack of corruption, ahead of several East European countries generally considered to be transition leaders.

has, however, not been a non-reformer. Small-scale privatization and housing reform were undertaken quickly. Macroeconomic stabilization was not an initial priority but, after the collapse of the ruble zone at the end of 1993, Uzbekistan moved purposefully to reduce inflation. Macroeconomic policy in the two and a half years after January 1994 followed standard IMF advice, and relations with the international financial institutions improved over this period. In October 1996, however, despite having made commitments to the IMF to adopt current account convertibility, Uzbekistan responded to a balance of payments crisis by introducing forex controls.

The forex controls have been the major economic issue since 1996. Although the government had recognized their cost by the end of the decade and took steps toward liberalization, the controls remained in place until late 2003.¹⁹ The forex controls have been a major, but not the only, stumbling block to improved relations with the international financial institutions. Since 1996 Uzbekistan has been, by the EBRD transition indicators, a slow reformer, but this characterization is determined by its low score on price liberalization (reflecting ongoing state orders for cotton and wheat) and on trade (reflecting the forex controls).

Uzbekistan has been gradually becoming a more market-oriented economy, albeit with substantial government direction. Government intervention, apart from the controls on cotton and wheat, tends to follow a version of the Asian developmental state model rather than the crude controls of Turkmenistan. Uzbekistan's financial sector remains dominated by a state-owned bank and financial repression is severe. Elsewhere, however, the government is bringing market forces to operate, eg, in rail transport and in some utilities (Pomfret, 2003a). A key distinction between Uzbekistan and the Kyrgyz Republic or Tajikistan is that Uzbekistan's legislative record is less reformist but its implementation is more effective.

The Uzbek puzzle is how to explain the good economic performance of a lagging economic reformer. It is partly a matter of over-estimating performance, but it has much more to do with under-estimating reform progress and, especially, failure to recognize the key importance of infrastructure and the institutional setting in which markets function. Uzbekistan is not an open society and this may stifle economic progress, but it has a relatively well-managed economy and this feature helped to

¹⁹ Rosenberg and de Zeeuw (2000) analyze the forex regime. The existence of forex controls has been a stumbling block to reform, even as the government professes a desire to abolish them. In 2001 temporary import duties were imposed ostensibly to reduce the black market premium prior to establishing currency convertibility, but the main effects were to put small traders (a dynamic and pro-reform group) out of business and to encourage cross-border shopping and smuggling.

minimize the extent of the transitional recession. Without reform that may have just delayed rather than avoided decline, but gradual reform has been sufficient to provide the basis for modest but reasonably steady growth since the mid 1990s.

This is, of course, not to defend some of Uzbekistan's clearly misguided policies. The forex controls are hindering desirable resource reallocation to actual and potential export sectors. In part the controls are retained because, together with the state order system, they underpin a non-transparent but large taxation of the farm sector. That in turn has allowed Uzbekistan to maintain public revenues, and hence public expenditures without inflationary financing, and has been instrumental in retaining a credible social safety net and the highest ratio of education spending to GDP in the CIS. Nevertheless, these benefits come at substantial long-term resource misallocation costs, which are familiar from other countries that have relied on similar agricultural taxes (Pomfret, 2000). After the turn of the century, Uzbekistan was unable to generate the accelerated growth seen elsewhere in the former USSR, and it began to fall further and further behind its regional rival, Kazakhstan.

Overall, how far have the Central Asian countries moved in creating market-based economies? Institutions have long been recognized as critical determinants of how well a market economy performs (North, 1994), but in the transition context they were initially viewed in a mechanical way: how to replicate the institutional features of established developed market economies? This mechanical approach and simple norm is reflected in the pervasive use of the transition indicators reported by the European Bank for Reconstruction and Development in its annual *Transition Report*.

The EBRD's transition indicators might indicate that countries which have proceeded fastest with structural reforms and liberalization have also created the best quality institutions, or they could reflect a narrow view of institutions. It is important to acknowledge the ethnocentricity of these commonly used indicators of institutional change when analyzing the whole set of transition economies. The European transition economies rank the highest, and they are trying to emulate western European economic institutions in order to facilitate accession to the European Union. If a country sees its post-Communist future in terms of becoming like Sweden or Austria, then the EBRD measures are valuable guideposts to progress, but the Central Asian transition economies have other role models. Many of them would prefer to emulate the institutions and economic performance of South Korea or Malaysia, which do not rank highly by western-inspired measures of institutional quality.²⁰ The more economically successful Asian

²⁰ Malaysia is an especially attractive role model for the six Islamic Soviet successor states, who seek an alternative to the Iranian (or even worse, the Taliban)

transition economies have different institutions, but ones that in some respects work as substitutes for the western model, e.g. the network of family connections in China and Vietnam is, at least for small businesses, a reasonable substitute for western-style contract enforcement by litigation.

Attempts to transplant western institutions into a Central Asian setting did not have the anticipated success in the Kyrgyz Republic, because too many other conditions for a successful market economy were lacking. On the other hand, attempts to ignore universal laws of economics are likely to bring economic grief to Turkmenistan and Uzbekistan. Good economic management helped Uzbekistan to weather the transitional recession better than other former Soviet republics or most eastern European countries, but a heavily interventionist import-substituting industrialization strategy for economic development has been shown repeatedly to lead to long-term stagnation while creating the vested interests which make policy reversal difficult.

INTERNATIONAL ECONOMIC POLICIES: REGIONALISM AND INTEGRATION INTO THE WORLD ECONOMY²¹

The five Central Asian countries have all remained open economies with high trade/GDP ratios, despite adoption, especially in Turkmenistan and Uzbekistan, of import-substitution policies. Initially their trade was heavily oriented towards CIS markets as a result of inherited links and infrastructure, but by 1996 over half of their foreign trade was outside the old Soviet area. The early expectation was of a struggle for influence among the region's neighbours and outside powers, reminiscent of the Great Game of the nineteenth century, but that expectation has only been realized in the area of oil and gas pipelines, with the consequence of blocking any major new pipelines during the 1990s. Otherwise trade has been on a multilateral basis with non-energy exports being sold on world markets and imports being purchased from least-cost suppliers. Nevertheless, there have been a huge number of regional agreements, both among the Central Asian countries, and between Central Asian countries and their neighbors – Russia to the north, China to the east, and Iran and Turkey to the south.

The leaders of the five Central Asian countries have all recognized the desirability of some degree of regional cooperation, notably on the Aral

model of an Islamic economy. Their leadership was also impressed by Mahathir Mohamed's longevity as a national leader.

²¹ This section is based on Pomfret (2005).

Sea, and all have formally joined at least one regional organization, but their attitudes towards regional cooperation and towards membership in regional organizations vary considerably. Kazakhstan has been the most positive and most active, and has been the leading proponent of forging deeper economic arrangements among Soviet successor states. The Kyrgyz Republic has had the most global outlook among the five countries, collaborating with the international financial institutions and being the first to accede to the World Trade Organization, although the Kyrgyz Republic has also followed Kazakhstan's lead in joining regional organizations. Tajikistan too has joined the same organizations as Kazakhstan, although its actions have often been determined by the government's security ties with Russia. Uzbekistan has been wary of ceding authority to regional organizations. Turkmenistan has been the most sensitive about sovereignty, and consequently the most reluctant to become seriously involved in regional organizations. The national leaders' attitudes have, however, varied and evolved. The early 2000s saw widening fissures, in particular between Uzbekistan and its neighbors, but after the US-led invasion of Iraq there was a rapprochement between Turkmenistan and Uzbekistan towards a Russia which appeared less sensitive about human rights violations than the USA.

The history of regional organizations involving the five Central Asian countries has been driven by political considerations and has been lacking in economic achievements. In terms of formal trade policies, such as tariffs, this has been a benevolent outcome, because the countries have avoided becoming locked into second-best institutional arrangements, and are moving towards first-best nondiscriminatory low tariffs. The multilateral trading system is often seen as an alternative to the regionalism option. The Kyrgyz Republic is already a member of the World Trade Organization and, especially with the recent accession of China and anticipated accession of Russia, the WTO provides the best framework for trade policy in Central Asia.

Accession to the WTO

Membership in the World Trade Organization (WTO) is a natural institutional counterpart to economic openness. In the 1990s, however, the Central Asian countries were suspicious of international obligations which placed constraints on their policy autonomy. They were happy to join the United Nations as a signal of nationhood, and to join the IMF and World Bank and the regional development banks as potential sources of capital, but apart from the Kyrgyz Republic they held back on WTO accession. For Turkmenistan, this attitude remains even in 2005.

With low average tariffs, the main obstacle to WTO membership has been Central Asian governments' unwillingness to formally abjure the artificial non-tariff barriers described in the previous section. So far, only the Kyrgyz Republic among the Central Asian countries has joined the WTO, which it did in 1998 (Table 4). Kazakhstan's application appears to be fairly far-advanced. Uzbekistan's accession process is at an earlier stage than Kazakhstan's, which has had an active program of Working Party meetings in recent years. Tajikistan applied for WTO membership in May 2001, and the Working Party has only met twice, but it has already made more progress than Uzbekistan's. Turkmenistan has not lodged an application.

WTO membership and good trade policies are no panacea. The Kyrgyz Republic's WTO accession was followed by recession, because non-WTO factors (such as the Russian Crisis, Kazakhstan's fifty per cent devaluation and the collapse of three of the country's four largest banks) dominated any positive WTO effect.²² The WTO effect was weak because transport and transit conditions stymied Kyrgyz trade. WTO membership has costs but these are often misinterpreted. The restrictions on trade practices are largely what a small open economy should be doing in its own interests, while WTO members retain flexibility over applied tariffs as long as they are below the bound level. The more substantial costs are in building institutions to ensure compliance with the various WTO codes, but bilateral and multilateral donors can assist with this institution-building.

²² Critics of the WTO citing Kyrgyz post-WTO troubles confuse before/after and with/without comparison. A more robust criticism of the Kyrgyz Republic's accession experience is that the negotiators, whether due to inexperience or by intent, failed to make transitional arrangements or gain exemptions that would have protected Kyrgyz interests. Some learning process is reflected in Kazakhstan's lengthier and more detailed WTO negotiations, and harder stance on some of the voluntary codes. The appropriate negotiating balance must reflect a country's preferences and compliance capabilities; immediate compliance may be problematic and a phasing-in period desirable.

Table 5: Status of WTO Accession Negotiations

	Applied	Working Parties	Member
Kazakhstan	January 1996	7 meetings 1997-2004 ^a	
Kyrgyz Rep.	1993		December 1998
Tajikistan	May 2001	1 meeting (March 2004)	
Turkmenistan	Not applied		
Uzbekistan	December 1994	2 meetings 2002-2004 ^b	
China	1986		December 2001
Russian Fed.	June 1993	26 meetings, 1995-2005	

Source: WTO website – accessed 11 March 2005.

Notes: a - Kazakhstan Working Parties met on 19-20 March 1997, 9 October 1997, 9 October 1998, 13 July 2001, 15 July 2003, 4 March 2004 and 3 November 2004.

b - Uzbekistan Working Parties met on 17 July 2002 and 29 June 2004.

The most important benefit of WTO membership is to place trade on a common basis of international trade law, and potentially to separate trade from politics. Accession by more Central Asian countries would provide a common framework for formal trade policies and dispute resolution with respect both to a greater proportion of intra-regional trade and to trade with all of the region's economically important neighbors. Iran, Pakistan and Turkey have long been WTO signatories, and the benefits to Central Asian countries of WTO membership should be accentuated by China's accession in 2001 and by Russia's imminent accession. As WTO members, Central Asian countries would share a common institutional framework for trade policies and their implementation both with one another and with their neighbors.

Overall, the trade performance of the Central Asian countries has been disappointing (Table 5). Apart from Kazakhstan's oil-driven post-1999 boom, the Central Asian countries' export growth since 1994 has been mediocre. The explanation is a mixture of the destruction of intra-CIS trade due to the erection of borders, and the failure to realize the potential for trading in the major non-CIS markets. The lack of a stable institutional environment for international trade is part of the high costs of doing trade with Central Asian countries, and WTO membership could alleviate these costs by providing the framework in which regional and wider trade can flourish.

Table 6: International Trade, 1993-2003 (million US dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports											
Kazakhstan	1,107	3,227	5,256	5,926	6,497	5,511	5,598	9,876	9,085	9,670	14,875
Kyrgyz Rep	360	339	483	506	609	509	454	504	476	486	622
Tajikistan	350	492	749	772	803	597	689	770	652	737	719
Turkmen	561	1163	1881	1693	751	594	1187	2505	2555	2710	2949
Uzbekistan	693	1991	2718	2620	2896	2310	1963	2132	2087	1558	1998
Imports											
Kazakhstan	1704	3285	3807	4247	4302	4373	3686	5048	6478	6584	9377
Kyrgyz Rep	447	316	392	795	709	841	611	555	465	587	888
Tajikistan	532	545	810	668	750	711	663	671	680	710	881
Turkmen	586	904	1364	1313	1228	1007	1476	1788	2210	1819	1964
Uzbekistan	918	2455	3030	4854	4538	2931	2481	2067	2293	207	2510

Source: International Monetary Fund, Direction of Trade Statistic

WTO accession could bring further benefits by encouraging liberal policies and punishing backsliding on commitments. Such an environment would help to attract foreign direct investment, as well as making domestic investment more attractive. With a positive domestic environment, WTO membership helps to ensure that a country can reap benefits from specialization and trade with diminished fear of protectionist responses in foreign markets.

Finally, WTO membership would grant some leverage to reduce existing illiberal policies. Most immediately, Uzbekistan and Tajikistan would want to join WTO member countries lobbying for reduced subsidies to cotton producers in the USA and EU. Central Asian cotton-producing nations would broaden the coalition and highlight the iniquity of subsidizing

rich country farmers to the detriment of poor farmers in areas with a comparative advantage in growing cotton.

PROSPECTS FOR THE SECOND DECADE

Within Central Asia the most striking developments since 1991 have been in domestic rather than in international politics. Apart from in Tajikistan, the presidents are all men who were appointed as First Secretary of their Soviet republic by Mikhail Gorbachev and who have remained in power by more or less undemocratic means. Opposition has been fairly ruthlessly crushed and civil society has been slow to emerge. Nevertheless, in all of the countries, apart from the confused situation in Tajikistan, there are signs of a more threatening opposition to the incumbents.²³ Policy statements emphasize coordinated action against terrorism, but since 1999 border closures and international incidents have become more frequent.

The establishment of new border posts was a consequence of the creation of the new independent states in 1991, but their role as a major source of tension was exacerbated by the 1999 explosions in Tashkent and the increased activity of the Islamic Movement of Uzbekistan (IMU). Uzbekistan subsequently introduced visa requirements which were followed by its neighbors, and took steps such as laying mines to deter IMU fighters from entering Uzbekistan through Tajikistan and the Kyrgyz Republic.

²³ After a series of assassinations of public officials in 1997, the Uzbekistan government arrested hundreds of people in a 1998 crackdown. In February 1999 five bombs exploded in downtown Tashkent, killing several people and injuring over a hundred; the biggest one outside the Cabinet of Ministers building was apparently targeted at the President. In August 1999 some 650 gunmen from the Islamic Movement of Uzbekistan (IMU) were caught entering Uzbekistan. Attempts to bomb the insurgents' bases hit the wrong targets, killing several Kyrgyz civilians and Tajik cows and undermining Uzbekistan's reputation for military effectiveness. In the Kyrgyz Republic dissension has had a regional dimension as opposition has been centred in the south, objecting to a perceived northern bias of President Akayev's government. In Kazakhstan, opposition has focused on the behaviour of President Nazarbayev's family and close associates, who have been forced to respond to accusations of malfeasance and corrupt self-enrichment. Both Kazakhstan and the Kyrgyz Republic are relatively open societies, where domestic opposition is vociferous even if it is under duress. In Turkmenistan, all domestic opposition has been muzzled, but an opposition in exile has emerged in recent years. In November 2002 an assassination attempt on President Niyazov (Turkmenbashi) was followed by a domestic crackdown on suspects.

What are the prospects for improved international relations in Central Asia during the first decade of the twenty-first century? At the institutional level, existing regional organizations have been strengthened, at least on paper, as the Union of Five became the Eurasian Community, the Shanghai Forum became the Shanghai Cooperation Organization and the Central Asian Economic Community was succeeded by the Central Asian Cooperation Organization. Whether the implementation ability of the new organizations will exceed that of their predecessors is still uncertain. Moreover, recent developments within the region, especially increased territorial disputes, are creating a climate which is inimical to cooperation. Whether justified on security grounds or not, new border control measures are unpopular among the local populations who have no history of such restrictions, and assertions of the new states' territorial rights augur poorly for inter-state cooperation.

Yet, there are benefits from regional cooperation, and if these could be realized that would help to defuse political tensions. The costs to Central Asia of foregoing benefits from international specialization and trade arise from the tragedy of the anti-commons, where people promoting self-interested goals are choking off trade that would be mutually beneficial. This tragedy can be mitigated by government actions to discourage or regulate anti-social behavior by local authorities, customs officials and others under their jurisdiction. The national governments can also benefit by implementing policies to reduce other impediments to trade such as cumbersome visa regulations, poorly developed financial systems, and capricious changes in border crossings, but that requires an appreciation that many of the foregone trade opportunities represent win-win situations.

CONCLUSIONS

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

By the turn of the century, the national economies, with the possible exception of Turkmenistan's, had changed substantially from the centrally planned economy of the Soviet era and all were in one form or another, a market-based economy. Kazakhstan, despite false steps in the 1990s,

remain the most likely to succeed. Its new elite, based on an unfair and distorted privatization process, is now keen to establish a rule of law in order to protect its economic gains, and favorable institutional developments are likely. Meanwhile, the hard infrastructure of oil pipelines is starting to improve and provide Kazakhstan with alternative outlets for its dominant exports.²⁴ At the other extreme, Turkmenistan faces the grimmest immediate prospects with a regime that is resistant to change; the long-term prospects depend upon the timing and the nature of the political succession. Political factors are also critical in Tajikistan, where establishment of effective public administration is a necessary precondition for progress. Even with that condition met, the economic prospects are not good for Tajikistan or for the Kyrgyz Republic, both poor landlocked countries. Uzbekistan is the most complex situation to forecast. In the 1990s it was economically the most successful of all Soviet successor states and in day-to-day matters the economy remains well-managed, but bedeviled by poor economic policies in key areas. If the inter-related issues of protection for import-substituting industries, low farmgate prices and government revenues can be addressed, the economic prospects may be reasonably good, but if they are not addressed Uzbekistan's economy could easily slip into the state familiar from many import-substituting countries of the 1950s and 1960s. Perhaps more fundamental, in Uzbekistan as elsewhere in Central Asia, is the question of whether an autocratic and repressive political regime is consistent with a flourishing market-based economy; China's example suggests "yes", but that has not been easy to replicate.

How to sum up the prospects for Central Asia as a whole? The main conclusion of this paper is that, despite much shared background and common initial conditions, the five countries, and especially the two larger economies, Kazakhstan and Uzbekistan, have been moving along differing trajectories and that is likely to continue. While the three smaller countries will remain minor players in the global economy, both of the larger countries could become significant middle-sized economies, but in their own right rather than as part of Central Asia.

²⁴ The opening of the private CPC pipeline to the Black Sea in 2001 provided an alternative to the Russian state monopoly, and construction of a pipeline to Ceyhan on Turkey's Mediterranean coast will further increase Kazakhstan's options in 2005. High oil prices in 2003 and 2004 have also reopened the prospect of profitable pipelines to China.

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