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## 9. Central Asia, Russia and the West

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### I. Introduction

While the continued independence of the Central Asian states is largely taken for granted today in most Western capitals, seven years ago there was very little optimism in Western policy circles about what the collapse of Soviet rule in this part of the world would bring. The new states of Central Asia seemed ripe for being overtaken by the fatal combination of drugs, guns and Islamic extremism.

The neighbourhood seemed potentially a deadly one. In June 1989 Uzbeks had clashed with Meshket Turks in the city of Ferghana (Uzbekistan): a year later there was far deadlier and more sustained violence when the Kyrgyz and Uzbeks of Osh *oblast* in Kyrgyzstan fought each other.<sup>1</sup> These clashes raised the spectre of two republics going to war with one another, no idle threat given the already ongoing confrontation between Armenia and Azerbaijan.

In the late 1980s and early 1990s developments in one Soviet republic or newly independent state often stimulated events in another. The Osh uprising led to the peaceful removal of Kyrgyzstan's leader Absamat Masaliev and his replacement by the current President, Askar Akayev, in October 1990.<sup>2</sup> In neighbouring Tajikistan the effort to oust President Kakhkhar Makhkamov, following the failed communist party coup of August 1991, plunged the country into civil war. This conflict, which became increasingly violent in 1992, was quickly transformed from being a conflict over the question who should rule society to one over whether the state should be a strictly secular one.

The existence of so many theatres of conflict helped contribute to a Western predisposition to look to Russia to guide these states into more stable and democratic futures and to play the role of policeman if good guidance failed. It is important to remember that this was a time of generally high Western confidence in Russian President Boris Yeltsin, who at the end of the Gorbachev era had surrounded himself with a large number of pro-Western democratic and economic reformers.

The situation in Tajikistan was particularly disturbing. Its porous border with Afghanistan raised the spectre of the fighting in the two states somehow becoming conjoined and threatening the stability of the other Central Asian states.

<sup>1</sup> For more information on these events, see Khazanov, A. M., *Soviet Nationality Policy During Perestroika* (Delphic Associates, Inc.: Falls Church, Va., 1991), p. 113; and Huskey, E., 'Kyrgyzstan: the politics of demographic and economic frustration', eds I. Bremmer and R. Taras, *New States, New Politics* (Cambridge University Press: Cambridge, 1997), pp. 661–62.

<sup>2</sup> Huskey (note 1), pp. 654–80.

Thus when Russia decided to intervene in the autumn of 1992 to try to restore order, it did so with tacit US support. This of course was before the war in Chechnya and Russia's very partisan tilting of the balance in Georgia towards the Abkhaz, threatening the survival of that nation as well as the physical survival of the newly elected President, Eduard Shevardnadze.

These latter actions led US and other Western leaders to begin to wonder whether Russia was demanding too great a role and seeking to reap the benefits of an empire without sustaining most of the costs of maintaining it. By this time many of the young reformers were being pushed aside by Yeltsin, while those who wanted to hold on to their posts began to espouse new policy lines. This was especially true of then Foreign Minister Andrey Kozyrev, whose policy-making agendas with regard to neighbouring states began to seem increasingly neo-imperialistic as his hold on power appeared to become more tenuous.

Kozyrev began dividing Russian foreign policy concerns into two spheres, directed to the 'near abroad', a potentially threatening euphemism for the former Soviet republics, and to the rest of the world.<sup>3</sup> Russian policy makers claimed that their 'security net' should extend to the old borders of the USSR. Although they recognized that there was little chance that the three newly independent Baltic states would grant them this privilege, they used strong-arm tactics to get recalcitrant leaders in the other 12 newly independent states to join the Commonwealth of Independent States (CIS). At the same time Russian officials vociferously claimed the right to protect ethnic Russians wherever they might be in the former Soviet space, another term they were keen to make part of everyone's regular vocabulary, while deliberately leaving vague just how they planned to accomplish this.

The Russian Government, as well as the economic elite, also believed that they were entitled to other kinds of privileges in the former Soviet space. This became abundantly clear when the US company Chevron began negotiations to gain access to a pipeline across Russia through which Tengiz oil could be shipped to Western markets. Russia refused to remove limits on the volume of Tengiz oil that could be shipped through its pipelines, defending this by citing concerns about contaminants in the oil. Most observers, however, believed that its actions were meant to assure Russia of a cut in the profits from Kazakh oil and to emphasize Kazakhstan's continued dependence on Moscow.<sup>4</sup> These negotiations in particular made it look to outside observers as if key figures in Russia's political establishment were more concerned to cripple Kazakhstan economically than to extract fair transit fees.

<sup>3</sup> Kozyrev, who was Russian Foreign Minister from the autumn of 1990 until Jan. 1996, first referred to the 'near abroad' in 1992. 'What is taking shape around us . . . is something that could probably be called the "near" abroad. The "former" fraternal republics, which are tired of totalitarian oppression, have chosen, just like Russia, the path of independent development. This is a gratifying process which reassures us and is a guarantee of new friendship.' *Izvestiya*, 2 Jan. 1992, in British Broadcasting Corporation, *Summary of World Broadcasts: Former Soviet Union*, 4 Jan. 1992.

<sup>4</sup> Kasenov, O., 'Institutions and conduct of the foreign policy of postcommunist Kazakhstan', eds A. Dawisha and K. Dawisha, *The Making of Foreign Policy in Russia and the New States of Eurasia* (M. E. Sharpe, Inc: Armonk, N.Y., 1995), pp. 263–85.

This impression was strengthened when Russian leaders began to challenge contracts signed by Western firms in both Azerbaijan and Kazakhstan, arguing that the Caspian Sea did not belong to these nations to develop. In 1994 it failed to recognize the contract which Western oil companies signed with Azerbaijan on the development of three Caspian oil fields, arguing that Caspian Sea reserves had to be divided and developed through agreements made by all the littoral states. Russia's hold over the available transit routes made these objections more than mere idle threats.

At roughly the same time the West began its own reassessment of the Caspian region as it became increasingly aware of the billions of dollars of oil and gas reserves which lie beneath the Caspian Sea and its shores. The value of these resources made Western businessmen and politicians keenly interested in the fate of the three states that contain most of the region's oil and gas—Azerbaijan, Kazakhstan and Turkmenistan—and in the fate of the other newly independent nations through which these resources will need to transit on the way to Western markets.

Once the principal Western oil companies became interested in securing a 'piece' of the Caspian, their governments necessarily reoriented their thinking as well. As a result, conventional wisdom in Western policy circles concerning these states quickly shifted 180 degrees. Azerbaijan and the Central Asian states went from being viewed as inconvenient additions to the international scene to being seen as potential strategic assets.

In the case of the USA, the policy shift has been particularly striking since it was equally occasioned by a real sense of let-down at developments in Russia itself. It is almost as if US policy makers felt that Russia must be punished for failing to become the kind of democratic society which they believed would be likely to develop rapidly in 1991 and 1992. This, combined with the potential value of the region's vast energy reserves, has led to a new set of priorities in the Caspian region.

Russia is no longer seen as a potentially positive influence on these states. Instead US policy makers are now strongly committed to their freeing themselves from dependence on Russia and doing so without growing closer to neighbouring Iran, the other logical but underused outlet to global markets. The USA is also encouraging these states to develop alternative security arrangements to complement the Russian-dominated CIS military agreements and concentrate on developing ties with the global economy, even if for the present these come at the expense of good trade relations with CIS partner states.

While the USA is still committed to having these states preserve their independence, introduce market economies and develop democratic institutions, the initial passion behind these words has all but disappeared. Six years ago the USA treated these states differentially, depending on their progress in achieving a democratic transition. While it rushed to recognize all the Central Asian states, Kazakhstan and Kyrgyzstan got US embassies first in a measure designed to nudge the other three towards embracing democratic principles more

enthusiastically. While no one would deny that other concerns played a decisive role in this decision (Kazakhstan had nuclear weapons) the US Government did continue to send out clear signals that the newly independent states would be treated differentially according to the pace of democratization. Presidents Islam Karimov of Uzbekistan and Saparmurad Niyazov of Turkmenistan were denied access to the White House during their earliest trips to the USA, in particular because of their lack of progress in human rights.

The behaviour of US policy makers is now sending a different message. Presidents of the energy-rich states are now welcome official visitors in Washington, regardless of how undemocratic their regimes are. Pipeline politics have come to eclipse concerns over sustaining macroeconomic reforms and fear of political instability has clearly begun to overshadow the earlier US commitment to the cause of popular political empowerment.

This does not mean that the USA has abandoned its goal of fostering the development of democratic societies in this part of the world. US and most other international assistance is still targeted towards projects designed to promote structural economic reforms as well as the legal environment necessary for the rule of law and the protection of private property. Kazakhstan and Kyrgyzstan have received a disproportionate share of this aid as the commitment to a radical restructuring of society has remained greatest in these countries.

Except for Azerbaijan, whose government is barred from receiving US public funds by Title IX, Section 907 of the Freedom of Support Act of 1992,<sup>5</sup> the USA also continues to help all these states to overhaul their education and social welfare systems. Here, too, the emphasis is on redesigning these systems to increase their long-term viability, by transforming them from state to privately funded and managed activities, rather than helping them to meet existing social welfare needs. The amounts of money devoted to such projects remain pitifully small. No matter how much congressional interest in these areas is increasing, the sums available will inevitably be a fraction of the funds necessary to help these societies cope with the task of successfully educating and economically integrating their overwhelmingly young and rural populations while also providing for their pension-age populations.

Still, it is quite striking that US policy makers no longer hold the leaders of the Caspian and Central Asian states very much accountable when they backslide, nor is there much public indication of disappointment when they make little headway in implementing democratic reforms. This is in striking contrast to the standards the West expects of Russia's leaders. While Boris Yeltsin faced his major political opponent in a democratic election, in Central Asia only

<sup>5</sup> The full title of this law is the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act. Section 907 prohibits any US aid to Azerbaijan, with the exception of non-proliferation and disarmament assistance, until the President reports that Azerbaijan has lifted its blockade on and ended hostilities towards Armenia and the Nagorno-Karabakh region of Armenia. Proposals to repeal Section 907 have failed, but the idea of lifting the ban on US aid to Azerbaijan is still being discussed.

Kyrgyzstan's President Askar Akayev has submitted himself to anything like a comparable risk.

While none of the other Central Asian leaders enjoys the kind of legitimacy which a democratic election process helps convey, all face serious economic crises and social welfare challenges. Still there is nothing in the US policy which conveys a sense of panic.

In the official US view none of the Caspian states is beyond saving, even war-torn Tajikistan, which is now perhaps showing signs of emerging from five years of sporadic fighting even more factionalized than when the war began. The thrust of US policy is that time is on the side of the states of Central Asia and that direct foreign investment is generally coming in quickly enough to enable them to make a successful transition to independence.

The hope is that revenues will be used in ways that serve the long-term economic interests of these states and that governments will use their royalties and profits from the sale of oil and gas to create a diversified economy, a sound tax base and a responsible social policy. True, there is increasing US concern about the growing problems of corruption in the region, but there is little anxiety that the situation might be beyond fixing, where disorder in one or more countries undermines regional security more generally.

Even if US policy makers still express concern to the various Caspian state leaders in private, as it seems certain they do, there is relatively little reason to think that their advice is being heeded. Over time the region's leaders have become more adept at rebuffing the implied conditionality of early US policy in the region. The shift in US policy has not made them less democratic; it simply has made them less apologetic about their behaviour. At the same time there is a growing sense that many US policy makers may also be coming to accept one of the basic premises of at least some of Central Asia's rulers, that by tradition and temperament their peoples are little suited to democracy. Many in the West now seem to find such arguments more attractive than they did a few years ago, as the attraction of a 'strong hand' applied in Islamic societies has grown in the face of violence in Algeria, the Taleban advance in Afghanistan, and the continuing Islamic extremist-inspired violence throughout the Middle East, the former Soviet Union and now even in parts of Europe and the USA. A large part of the reason why the USA continues to press for the isolation of Iran is its continuing support for such groups.

US leaders seem to have grown comfortable dealing with the former communist-leaders-turned-nationalists who still run virtually all these societies, seeing them as more predictable and hence preferable to the alternative elites which emerged from the economic, political and social forces released by the Gorbachev reforms as much as by independence. Someone like Askar Akayev has always been an attractive figure to Western audiences, but over time most of the others have also evolved into more worldly-wise political leaders, supported in part by advice from Western advisers and their own increasingly sophisticated diplomatic representatives.

While in theory this shift in Western perception could create a basis for cooperation with Russia, in fact it has not. Russian leaders have always preferred to deal with former *nomenklatura* types—who include Akayev, a long-time party functionary once responsible for supervising science—rather than with the opposition. The use of the Russian language and even more importantly the Soviet elite culture that was shared by those who ran the USSR still promote an easy working relationship between Russia's leaders and those in charge of the various Central Asian states. Russia's leaders too are at least as concerned with the political risks posed by Islamic extremism as are US leaders and share with the Central Asians the belief that the most important source of this threat is Afghanistan rather than Iran.

Russia's efforts at friendship building include security treaties and offers of military assistance. Yet it is these very security guarantees and the history of their development that make US policy makers suspicious of Russia's intentions. It is the vigour with which Russia has attempted to preserve its presence on Central Asia's borders and the increasingly ill-defined mandate of its 201st Motor Rifle Division (MRD) in Tajikistan, rather than its mere presence, which create concern. The Clinton Administration's view is that the Russian military presence will be used to defend Russian interests first and foremost, with no guarantee that Russia will do what is in the perceived interests of the various Central Asian states—a position that is even more strongly held by leaders of the Republican majority in the US Congress.

At the same time it is also far from self-evident that the current US policy of cosyng up to Central Asia's dictators is a formula for helping to ensure stability, and therefore in the best interests of the USA or in the long-term interests of the Western firms so eager to do business in the Caspian and Central Asian region. This change in US and Western attitudes, however, is likely to affect the kinds of states which emerge in the region, and not necessarily for the better.

In the short run this policy is likely to stimulate the speed with which the region is integrated with the international community, as Russia has effectively been put on warning not to become the neighbourhood bully. Yet Russia's influence in this region may well have been exaggerated. The greatest sources of instability in the long run probably lie within these states themselves and seem certain to be further stimulated if the income from energy sales does not trickle down from the elite to the masses.

The Central Asian states would not be the first place where leaders have used the national wealth for their own personal benefit and then expected the West or the international community more generally to help shield them from the actions of angry masses or from the intervention of neighbours seeking to serve as patrons for disgruntled elements in the population.

The sharply declining standards of living throughout the region, the increasing levels of corruption and the refusal of almost all the region's leaders to prepare for a stable and democratic transfer of power all speak of the risks ahead. US policy makers are not taking adequate stock of these challenges if the

Caspian is to be an area of vital national interest. All this suggests that current US interest in the region may be little more than diplomatic posturing and that it will fold its tents and depart if the investment climate sours, leaving the people of the Central Asian states to cope on their own with the consequences of their leaders' actions.

## II. Working out the terms of the divorce

The Central Asian leaders have done far better in securing the independence of these states than most observers thought possible four or five years ago, but this does not mean that they will be equally successful with the challenges that lie ahead. One of the problems is that there is no agreed formula for evaluating developments in this region or for predicting what difficulties sustaining independence over the medium term is likely to create.

One major problem that has plagued the development of bilateral and multi-lateral relations between Russia and the various Central Asian states is that of how to treat their shared history and what rights and obligations it produces for both sides. Views can vary quite substantially depending on whether the Soviet Union is seen as an empire or as a failed multinational state.

For all their talk of throwing off the Russian 'imperial yoke', the Central Asian states are not going through a traditional decolonization experience. The Soviet Union was not simply the heir to the Russian Empire, but a transformed version of it, simultaneously a quasi-empire and a multinational state which both preached the equality of all peoples and subjugated them to an internationalist ideology which placed a distorted version of the Russian culture above all others. This creates a legacy of anger on both sides: the Central Asians resent their decades of de facto second-class status while the Russians believe that they are entitled to compensation for all that they have given to the Central Asians in their efforts to make them 'equal' to the Russians.

One thing that Central Asia does owe the Russians, however, is the administrative 'leg-up' that the Soviet republic system gave them in making the transition to independence. At the time of independence the Soviet republics had become weak quasi-states, with presidents, prime ministers and councils of ministers, quasi-democratically elected national legislatures and local legislatures. They also had a locally administered and highly developed network of social services, including a school system adequate to sustain universal literacy, free secondary and higher education, and a virtually free health care system which penetrated (if unevenly) to the most remote rural regions.

While the Soviet republic structure facilitated Moscow's administration of these regions, it made the institutional transformation to statehood easier than was initially expected. Added to this was the effect of the changing politics of the late Soviet era, which created new nationalist-oriented mindsets among masses and elites alike, giving powerful incentives for the governing elite of the Central Asian republics to transform themselves into national figures. This

occurred at the same time as the elites were getting powerful new economic incentives to hold on to power.

Talk of economic reform had stimulated both public and private claims to ownership of the valuable natural resources of these states, as well as giving Russian interests economic motivations to help fuel their geopolitical concerns. Oil and gas reserves are only a part of this region's great wealth. Kazakhstan has vast reserves of aluminium, copper and chromium, while collectively Kazakhstan, Kyrgyzstan and Uzbekistan account for some 40 per cent of the former USSR's vast proven gold deposits and Turkmenistan and Uzbekistan are major cotton producers.

The speed with which independence came may have been unexpected but, whatever their lack of international experience, the new heads of state were quick to grasp what an extraordinary opportunity independence presented to them personally and to those they chose to empower as they directed the privatization process in their now sovereign states. At the same time it was not intuitively obvious to them how to capitalize on this new advantage, even if they were not as guileless as the Russians often believed. For all their political shrewdness and administrative acumen, the Central Asian leaders lacked basic knowledge of what the world beyond their borders looked like and how it functioned. Victims of the ideological system which had produced them, the first post-Soviet heads of state were far less worldly than the post-colonial leaders of the 1940s, 1950s and 1960s. Most had little knowledge of the most elementary questions of finance and trade, not to mention the more complex ones of how the global market functioned in the energy sector, in precious metals or in most other commodities. All these questions had been handled by specialists in Moscow, with whom most of the new Central Asian leaders and their close associates generally had little direct contact.

This only strengthened the desire of these leaders to see their nations integrated as quickly as possible with the broader international community. The only real question was how. The leaders of most of these countries began to get advice from a variety of sources—from prominent Western businessmen and politicians, friends and acquaintances who had emigrated and succeeded in the West, and advisers and technicians from Moscow.

Progress was erratic in the first few years, as Central Asia's leaders continued to perceive themselves as being ruled in part through Russia's will. Tajikistan quickly erupted into fighting between rival regional groups. The other Central Asian states were concerned that the Tajik crisis might be a harbinger of similar struggles in their own country, which made Russian security guarantees all the more necessary. The region's leaders were also not blind to the protracted elite struggles going on in Azerbaijan and Georgia or to the war between Armenia and Azerbaijan. Russia did not appear to be a disinterested party in any of these disputes, which made everyone more nervous in their dealings with Russia.

At the same time, none of these states wanted to accept Russian economic domination as the price for these security guarantees. Thus these early years



were marked by a testing process between Russia and the Central Asian leaders. Still, the Central Asians went to some lengths to appear loyal, while also trying to project a different face to the broader international community, pressing for greater inclusion even if this meant the diminution of their 'special' relationship with Russia. Given the lack of international experience of these men, it is not surprising that the first few years of independence were characterized by a number of false starts in reaching out to the rest of the world in general and in attracting foreign economic investment in particular.

### III. Accepting international direction

One other reason why many of these first efforts met with a relatively lukewarm response was that the international community was itself a passive actor in this period. Diplomatic recognition was offered but substantial assistance was largely deferred while the international financial institutions and various aid agencies of the Western democracies studied the situation to work out how most effectively to intervene.

The parameters of the economic autonomy of the Caspian states began to be increasingly clear after the collapse of the rouble zone in late 1993. By then the international community was also mobilizing for action. Kyrgyzstan was the first of these states to accept an economic recovery programme designed by the international financial institutions and donor nations, introducing its own currency in May 1993. Kazakhstan followed quickly, but international recovery programmes were not made available to Uzbekistan until 1995, to Armenia and Georgia until 1996, or to Azerbaijan and Tajikistan until 1997. By that time Kyrgyzstan was already on its second three-year programme, but the Uzbek programme was in suspension and Turkmenistan was still struggling to get its economy into a state of sufficient readiness to be assisted.

The timing of international intervention reflected the receptivity of the various states to macroeconomic reforms. Kyrgyzstan was the test case for international intervention. It was the first to embrace the case for privatization and moved quickly to create legal guarantees for local and private property owners, establish a banking system, reform the tax structure and hold government spending to what it could raise from investment, tax and foreign assistance. A similar reform package was introduced in Kazakhstan, where the government has gone even further in trying to meet the expectations of the international community, engaging in a systematic overhaul of social welfare delivery systems as well. Kazakhstan's new pension system is being hailed by many as the model for other newly independent states: over a 45-year period it will gradually replace the current 'pay-as-you-go' system with private pension funds that will be supported through investments on the new Kazakh securities exchange. All this assumes a dynamic and fully privatized economy, stimulated by foreign investment and sustained over time by Kazakh investors themselves.

**Table 9.1.** Foreign direct investment in the Central Asian countries, 1993–97  
 Figures are in US \$m.

	1993	1994	1995	1996	1997 <sup>a</sup>
Kazakhstan	500	600	900	1 100	1 200
Kyrgyzstan	10	45	96	46	50
Tajikistan	9	12	17	20	20
Turkmenistan	79	103	233	129	108
Uzbekistan	48	73	– 24	50	60

<sup>a</sup> Estimate.

Source: European Bank for Reconstruction and Development, *Transition Report Update*, Apr. 1998.

Given the state of the country's economy, Tajikistan's officials have had strong incentives to accept whatever conditions are set by the international community. Turkmenistan and Uzbekistan have been slowest to accept international guidance on these questions. Initially both thought that they had adequate resources to do it 'their way', and both introduced their new currencies without benefit of International Monetary Fund (IMF) stabilization programmes.

Uzbekistan, which was using the sale of gold reserves to bolster its failing currency, the som, gave up and invited the IMF in, only to abandon the agreed strategy a year later when it sharply restricted the convertibility of the som, even for most foreign investors. The Uzbek Government maintains that it is still eager to attract foreign capital and promised to reduce the currency restrictions sharply by late 1998 or early 1999. It has made no secret of its contempt for the 'wildness' of the privatization process in Russia and even in neighbouring Kazakhstan, and its 'go-slow' policy suggests a desire to influence who wins and who loses in the process.

Turkmenistan is still in the process of negotiating with the IMF and, like Uzbekistan, long favoured subsidized prices over freely convertible currencies. Like Azerbaijan, gas-rich Turkmenistan was an energy producer in the Soviet period. It therefore intuitively turned to Russia and looked to its long-term partner Gazprom to help it develop its reserves and market its products in the West. The two quickly clashed over terms, however, as Russia wanted Turkmenistan to provide gas to the cash-poor CIS states and leave the more solvent European markets to Gazprom. This was what pushed the Turkmen Government to try to integrate directly in the global markets and to invite in the international financial institutions to help. There is little enthusiasm for transparency here, but the economy of Turkmenistan is so much more fragile than that of Uzbekistan and the elite with capital for investment so much narrower that they still remain fully within the government's control.

Concerns about transparency have surfaced regularly in all the Caspian states. It has been a particular problem in Kazakhstan, whose press has been granted

some discretion in discussing such matters. The privatization process has gone furthest in Kazakhstan, with over three-quarters of all enterprises in the country in private hands by late 1997, including over half its large enterprises. The more valuable the commodity, the less transparent the process has been. While Kazakhstan has been more conscientious than some states about putting valuable resources up for development through tender, the results of these tenders have sometimes seemed inexplicable. While there have never been serious allegations about inappropriate behaviour on the part of major Western oil firms, there is no shortage of rumours concerning powerful middlemen who transport suitcases of currency to leading political figures. Kazakhstan's metallurgy industry has been scandal-ridden as well. Contrary to the advice of foreign economic experts, several large processing plants were transferred to management companies and only turned over for privatization after their stocks had been sold off.

Foreign investment is intended to be the cornerstone of the Caspian states' economic recovery. The lack of transparency in the region rightly continues to make many potential investors wary but the promise of large potential rewards is clearly bringing many others in nonetheless. For all the negative publicity about corruption in Kazakhstan, the government's two Eurobond offers were quickly over-subscribed. The third, set to go forward just at the time of Russia's financial crisis in August 1998, was withdrawn because loss of investor confidence pushed interest rates up prohibitively.

Overall, the Central Asian states have made generally steady progress in attracting foreign direct investment (see table 9.1). Not surprisingly, this investment is going disproportionately into the two oil- and gas-rich states, and Kazakhstan leads all the newly independent states in the amount of investment on a per capita basis. However these investment figures can be somewhat misleading as a measure of the long-term economic prospects in the region. They are a better indicator of Western interest in developing the Caspian oil and gas reserves than of the ability of Western firms to do so.

Enormous hurdles must be got over before the 'oil dollars' begin rolling in, and much can change in these states in the interim. Some earlier problems have begun to fade as Russia seems to be accepting the idea that the undersea resources of the Caspian will be divided into national sectors. However, the most critical issue, that of constructing additional pipelines to move oil and gas from these states, is moving forward only slowly.

Russia is trying to maintain its monopolist advantage in transit and is against routes which bring oil and gas to compete in its export markets. At the same time, however, its own political and economic fragmentation has made it difficult for it to 'deliver' on Russian transit routes. Russia's republic and regional leaders want to maximize transit fees. While everyone seems sure that oil and gas will eventually flow from the region, no one can say with much certainty how soon or at what cost.

**Table 9.2.** Central Asian production of oil and natural gas

	1992	1993	1994	1995	1996 <sup>a</sup>
<i>Kazakhstan</i>					
Crude oil (barrels per day)	444	408	352	362	403
Natural gas (trillion cubic feet)	0.29	0.24	0.16	0.17	0.15
<i>Kyrgyzstan</i>					
Crude oil (barrels per day)	2	2	2	2	2
Natural gas (trillion cubic feet)	<sup>b</sup>	0.00	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>
<i>Tajikistan</i>					
Crude oil (barrels per day)	1	1	<sup>c</sup>	1	2
Natural gas (trillion cubic feet)	<sup>b</sup>	0.00	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>
<i>Turkmenistan</i>					
Crude oil (barrels per day)	98	79	77	70	76
Natural gas (trillion cubic feet)	2.02	2.29	1.26	1.14	1.31
<i>Uzbekistan</i>					
Crude oil (barrels per day)	36	47	75	115	115
Natural gas (trillion cubic feet)	1.51	1.59	1.67	1.70	1.70

<sup>a</sup> Figures for 1996 are preliminary.

<sup>b</sup> Amount is less than 5 billion cubic feet.

<sup>c</sup> Amount is less than 500 barrels per day.

Source: Energy Information Agency, *International Energy Annual 1996* (EIA: Washington, DC, 1998).

At present the only firm route for 'main oil' is the Caspian Pipeline Consortium (CPC) pipeline across Russia. While it is clear that alternative pipelines will eventually emerge it is not fully clear how much new oil the existing markets will bear. Until the actual investment in extraction is made, Western firms are free to pay the appropriate fees and back away from their promised investments. While this is unlikely to happen to all the deposits in the Caspian region, it is certainly possible that some of those that are more expensive to exploit could be abandoned if the price of oil continues to drop and if new markets come on line more slowly than anticipated.

It is important to remember that the pipeline issue will not be decided in a vacuum. If financing a major pipeline through Iran becomes politically feasible, so, too, will the development of Iranian oil and gas. In the next decade Iraqi oil might also become available for development; this will be cheaper and easier to develop and market than much of the Caspian reserves. It is entirely possible that Western firms might have ready access to both Iranian and Iraqi oil before they are able easily to transport Turkmen gas and oil across Afghanistan or market fuel in India which has crossed Pakistan.

## IV. The coming threats

### Economic problems

All of this means that the economies of all the Central Asian states are likely to prove far more difficult to stabilize than their leaders initially thought would be the case. Income from the energy sector remains below projected levels. In 1997 Kazakhstan experienced the first substantial increase in oil production since independence, while Turkmenistan's gas industry remained seriously depressed, although production increased somewhat. Turkmenistan's crisis is certainly the most severe. It has been forced to accept a barter arrangement for partial payment with Ukraine rather than see its market for natural gas collapse entirely, and its new pipeline across Iran requires it to share construction costs through payment in kind, which effectively limits sharply the income from current exports. The slow development of energy also has an impact on Uzbekistan, which hoped to benefit from transit fees for Kazakh and Turkmen oil across Afghanistan. In another way, however, this delay has helped contribute to Uzbekistan's economy, as Uzbekistan remains a gas exporter (to Kazakhstan and Kyrgyzstan).<sup>6</sup>

Initially it was hoped that this partial recovery in the oil and gas industry would be sufficient to sustain a more general economic recovery. The gross domestic products (GDPs) of three of these countries finally began to increase in 1996, although Turkmenistan's economy continues to falter (see table 9.3). However, even at the time it seemed that caution was warranted, as these increases did not come near the scale of the recovery necessary if these countries are to experience any meaningful economic growth.

After the onset of Russia's economic crisis in the summer of 1998, the economic recovery of the Central Asian states seemed to be relegated to an even more distant future. If Russia's currency lost two-thirds of its value, those of the various Central Asian states dropped by about one-third, given their dependence on trade with Russia.

### The social and political risks ahead

What all this means is that most of these states are likely to have to confront a host of deferred problems while their economies are still in a depressed con-

<sup>6</sup> Despite the increase in Kazakhstan's oil production over the past few years, its exports of crude oil have dropped since 1992 from 18 174.3 million tonnes per year to 16 800.0 million tonnes per year in 1997. Kazakh natural gas exports have also dropped from 3915.0 billion m<sup>3</sup> in 1992 to 2341.8 billion m<sup>3</sup> in 1996. Economist Intelligence Unit, *Country Profile: Kazakhstan*, 30 Sep. 1997; and 1 Apr. 1998. Turkmenistan's revenue from natural gas exports fell from \$1860 million in 1993 to \$1022 million in 1996 and its revenue from exports of oil products from \$182 million in 1993 to \$148 million in 1996 (bouncing back to \$212 million in 1997). International Monetary Fund, *Turkmenistan: Recent Economic Developments*, IMF Staff Country Reports, no. 89/18 (IMF: Washington, DC, 1997). Uzbekistan has seen a decrease in its oil exports from 0.5 million tonnes in 1993 to 0.3 million tonnes in 1995, and in its natural gas exports from 7.2 billion m<sup>3</sup> in 1993 to 4.9 billion m<sup>3</sup> in 1996. Economist Intelligence Unit, *Country Profile: Uzbekistan*, 1 Apr. 1998.

**Table 9.3.** Percentage change in real GDP in the Central Asian countries, 1993–97

	1993	1994	1995	1996	1997 <sup>a</sup>
Kazakhstan	- 10.4	- 17.8	- 8.9	1.1	1.8
Kyrgyzstan	- 16.0	- 20.0	- 5.4	5.6	10.4
Tajikistan	- 11.0	- 18.9	- 12.5	- 4.4	2.2
Turkmenistan	- 10.0	- 18.8	- 8.2	- 8.0	- 25.0
Uzbekistan	- 2.3	- 4.2	- 0.9	1.6	2.4

<sup>a</sup> Estimates.

Source: European Bank for Reconstruction and Development, *Transition Report Update*, Apr. 1998.

dition; moreover, problems in one country are sure to have an impact on developments in neighbouring states. The five states of Central Asia are still potentially very interdependent. If one should implode, the ‘fall-out’ is almost guaranteed to cross national boundaries. Some of this has already been seen in Tajikistan. Although the war there did not create the domino effect that many feared, Kyrgyzstan and Uzbekistan have had to cope with an unwelcome refugee burden (generally of their own ethnic kin) generated by the crisis.

Even more serious is the growing drug trade across the region, particularly in southern Kyrgyzstan, which most observers attribute to the porousness of the Afghan–Tajik border. As well as opium, heroin is now both transitting and being produced in Central Asia. Poorly paid border guards and police are easy prey for those interested in moving this deadly cargo.

Serious social unrest in Uzbekistan, even on a much smaller scale than the civil disorder in Tajikistan, would pose a risk to all the other Central Asian states. The situation in Uzbekistan seems stable enough today but the society will come under great stress at the time of political succession. Karimov’s putative heirs will be the people who pay if he guessed wrong when he opted for economic stabilization over the macroeconomic reform programme suggested by the IMF and World Bank experts. There is virtually no institutional preparation for a democratic transition, which raises the prospect of a free-for-all developing as Karimov’s strength diminishes. Uzbekistan is the centre of Central Asia’s religious revival, and radical Islamic activists remain very influential in the densely populated Ferghana Valley even after years of government effort to reduce their influence. There is a strong likelihood that religious themes will be invoked as groups jockey for support and that a secular opposition may choose to make common cause with the religious activists.

Uzbekistan has created the most pervasive and effective security force in the region, and is clearly able to deal summarily with small pockets of resistance, but it is unlikely to be able to deal effectively with mass resistance or with the kind of disorder that would accompany a shift in drug routes through Uzbekistan. Efforts to control widespread unrest would inevitably lead to spillover of

the opposition into Kyrgyzstan and Tajikistan, possibly into neighbouring Kazakhstan as well. If Islamic groups were to take power in Uzbekistan, or even if a secular regime were to opt for a visible religious colouration, there is sure to be an impact in all these three neighbouring states. Southern Kazakhstan and southern Kyrgyzstan would both be strongly affected and deep latent anger at deteriorating economic conditions could turn into widespread, potentially violent public protest in a very short time.<sup>7</sup>

Kazakhstan could and should have an orderly political transition, but the opportunity for personal enrichment that is afforded those who hold power is an enormous temptation for those close to President Nursultan Nazarbayev. Over the past several years, Kazakhstan has become a steadily less democratic state, with a far weaker legislature and far stronger presidency than Kyrgyzstan or the Russian Federation has. Even so it is still a much more pluralistic society than either Turkmenistan or Uzbekistan. Kazakhstan is roughly as democratic as Azerbaijan but is less immune to outside influences. Kazakhstan's large Russian population and long border with Russia mean that Russia will never be a disinterested observer of developments here. The pace of economic recovery is sure to affect the nature of the transition which occurs, for if government efforts to sponsor the development of small and medium-size businesses succeed there should be a large enough middle class to support a stable transfer of power, regardless of how undemocratically it is orchestrated.

Barring major unrest in neighbouring Uzbekistan, there should be a relatively smooth transition in Kyrgyzstan from President Akayev to his successor. The country's small elite has shown relative skill at sorting things out behind closed doors, which has helped make Kyrgyzstan's elections the freest in the region. Turmoil here would have relatively few consequences for neighbouring states. Kyrgyzstan does, however, control much of the water supply to neighbouring countries, and so has some leverage in regional affairs.

Turkmenistan is the most unpredictable of the Central Asian states, and in the short run potentially the most unstable. President Niyazov's health is uncertain and the problem of succession cannot even be discussed, let alone planned for, in this extremely tightly controlled state. The elite is quite small and mirrors the clan cleavages of Turkmen society but has been allowed very little room for economic development or political manoeuvring. Those from the larger and more powerful clans would be able to make effective use of popular disaffection. A protracted political struggle here could focus on plans for foreign development of Turkmenistan's resources, with existing contracts proving as long- or as short-lived as the reputation of a deceased leader in a lawless state.

<sup>7</sup> In Feb. 1999 a series of bomb explosions took place in Tashkent near the headquarters of the Council of Ministers: 16 persons were killed and over 130 injured. This terrorist act was attributed by the authorities of Uzbekistan to Islamic radicals.

## V. What if things go sour?

It is hard to know how effective Western governments are likely to be in influencing the outcome of events in the Central Asian region. Obviously the USA and other NATO nations have the capacity for military intervention should they choose. The USA took pains to demonstrate this when the 82nd Airborne Division organized a jump that took the participants from their base in the USA directly to Kazakhstan in September 1997 as part of training for the Central Asian Battalion (CentrasBat), the joint peacekeeping force of Kazakhstan, Kyrgyzstan and Uzbekistan which is sponsored by NATO's Partnership for Peace.

However, the reluctance with which the USA and other Western nations have committed themselves to the use of force in recent years is testimony to the size of the gap that must be bridged for military capacity to become military engagement. The Central Asian and Caspian region is Russia's backyard, and Western leaders have taken pains to convince Russia that the competition over development of Caspian energy is a commercial competition. Eager as Western leaders are to see the region's various interstate and internal conflicts resolved in order to facilitate the rapid flow of oil and gas, the member states of the Organization for Security and Co-operation in Europe (OSCE) have moved cautiously towards internationalizing the various ongoing negotiations and have yet to press for peacemaking or peacekeeping forces to be expanded beyond the CIS states. Any formal use of force by a Western power, even in the cause of protecting Western investments, would be interpreted by Russia as a hostile act and would have grave consequences for the future of NATO and evolving European security relations.

At the same time Russia is no longer free to use force with impunity in the Caspian region. The Caspian states are still bound to it through a variety of bilateral and multilateral security agreements, but any Russian intervention that was not at the explicit request of the state involved would have potential consequences for Russia's evolving relationship with the West.

Russia's policy makers might still choose to intervene in Central Asia, even at the risk of incurring the wrath of the West, but they are likely to be increasingly reluctant to do so. Intervention might be motivated either by the prospect of enormous commercial gain, such as the compensation for helping one Turkmen group come to power rather than another, or by the belief that failure to intervene would in itself constitute a threat to Russian security. A variety of situations could lead Russian policy makers to that conclusion, including inter-ethnic violence in northern Kazakhstan or the serious prospect of radical Islamic groups taking power in Uzbekistan. It is also possible that Russia might decide that neither of these scenarios posed a direct threat to its own national security and opt to seal its borders instead. While Russia originally scoffed at the cost of turning the former inter-republic boundaries into secured international ones, it has now begun the slow and expensive process of trying to do



this. Andrey Nikolayev, then Director of the Russian Federal Border Service, visited Kazakhstan in 1997 and signed a treaty that called for the delimitation of the Russian–Kazakh border.<sup>8</sup> In October 1998 Yeltsin and Nazarbayev signed a protocol declaring their intent to begin the next step of the process, namely, the demarcation of the border.<sup>9</sup>

With each passing year the likelihood grows that the Central Asian states will have to assume full responsibility for their own security before too long. The USA, Turkey and other Western states have been willing to provide some officer training and other limited military assistance designed gradually to wean these states away from exclusive dependence on Russian assistance or Russian-compatible command and control systems, but none of them is anywhere near ready to defend itself against a formidable external enemy and most seem ill-prepared for prolonged engagement with a determined internal enemy.

This ‘security gap’ will certainly restrict the options available to Western powers interested in maintaining regimes in Central Asia and in the Caspian region that are friendly, willing to guarantee the security of Western-owned energy fields and transit routes, and willing to continue to service their Western loans. Despite the current US public posture, should it become an all-or-nothing choice between military intervention and writing off these debts and investments, the arguments against military intervention are almost certain to prevail over the impulse to protect Western assets.

In fact, it may be that the West has already made an even more callous choice about Central Asia and the Caspian region, although there is little in the public rhetoric to demonstrate that this might be the case. While Western policy makers may talk about this region as one of new and real strategic importance, they still see it as little more than a back-up for the potentially much vaster oil reserves in the more strategically located Persian Gulf region. In an energy-hungry world, the Caspian resources are certainly worth trying to ‘snare’, but the West will only help develop them if it can do so at reasonable cost. A reasonable cost is not one which puts US and other Western lives at risk to secure investment in oil and gas fields that are valuable but of secondary importance. On the US side a large part of the rhetoric has been to put Russia on notice it must keep its hands off in order to permit foreign development of the region’s resources. It has never been assumed that the West will fill the gap left by Russia’s withdrawal.

Russia, however, has been withdrawing, even though it still considers Central Asia an area of vital national interest. It is difficult to know whether growing Western involvement in the economies of these states has played a critical role in decision making in Moscow. Far more important is Russia’s growing weariness and incapacity. A government unable to take care of its own citizens has little energy or resources left to attend to the plight of co-nationals stranded

<sup>8</sup> Tolshovich, U., *Almaty Delovaya Nedelya*, 11 Sep. 1998, p. 13, in Foreign Broadcast Information Service, *Daily Report—Central Eurasia (FBIS-SOV)*, FBIS-SOV-98-292, 19 Oct. 1998.

<sup>9</sup> Kirinitsyanov, Yu., *Rossiyskaya Gazeta*, 14 Oct. 1998, p. 1, in FBIS-SOV-98-287, 15 Oct. 1998.

abroad. While the Russian Government may act to protect its national interests through direct action in Central Asia, it is likely to place the threshold for such intervention ever higher.

After eight years of independence the Central Asian states find themselves with many acquaintances but almost none close enough to accept the price which comes with close friendship. They have managed to create closer ties with the USA and other Western governments than they anticipated just a few years ago. At the same time, while Russian troops remain in the region, Russia is playing a less aggressive role in the region than its early policies towards the Central Asian states would have led their leaders to anticipate. Central Asia's mounting economic and social problems, though, may make independence even more costly to maintain than the regions' rulers are even now able to appreciate. If things go badly for these states, then good friends will be sorely missed.