

COPYRIGHT NOTICE:

Richard Pomfret: The Central Asian Economies Since Independence

is published by Princeton University Press and copyrighted, © 2006, by Princeton University Press. All rights reserved. No part of this book may be reproduced in any form by any electronic or mechanical means (including photocopying, recording, or information storage and retrieval) without permission in writing from the publisher, except for reading and browsing via the World Wide Web. Users are not permitted to mount this file on any network servers.

Follow links for Class Use and other Permissions. For more information send email to: permissions@pupress.princeton.edu

1

Introduction

In late 1991, with the sudden collapse of the Soviet Union, the five Central Asian republics of the USSR became independent countries. Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan had no experience of nationhood before they were incorporated into the Russian empire during the eighteenth and nineteenth centuries. The completely unexpected challenges of nation building were superimposed on the transition from a centrally planned to a market-based 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 part of the single unit that had been the Soviet economy, and all five countries suffered serious disruption from the replacement of the USSR with fifteen independent countries. Attempts to maintain economic links by retaining the ruble as a common currency in 1992–93 exacerbated the problem of hyperinflation and had been abandoned by the end of 1993. Under these multiple adverse conditions, even the ability of the countries to survive was uncertain.¹

By the early twenty-first century all five countries had essentially completed the transition from central planning. Within the common bounds of resource-based economies and autocratic regimes, the five countries gradually became more differentiated as their governments introduced national strategies for transition to a market-based economy. The aim of this book is to describe the different economic policies and to analyze the outcomes.

The inherited political structures were identical and in four of the countries First Secretaries appointed by Mikhail Gorbachev remained in power as presidents, but the national leaders adopted surprisingly diverse economic strategies. The Kyrgyz Republic embraced the advice from Western institutions and advocates of rapid

¹The situation before independence and the immediate post-independence period (1992–93) are analyzed in Pomfret (1995). Gleason (1997) and Luong (2002) analyze political development in these years. Islamov (2001) and Gleason (2003a) provide alternative accounts of the region's economic development during the 1990s. Roy (2000) reviews the post-independence political development. Collins (forthcoming) provides an insightful treatment of the wider political and social background, including analysis of the shift from strong support for continuation of the Union in the March 1991 Soviet referendum to the five countries' independence before the year's end.

change and, within limits, its president fostered the emergence of the most liberal regime in the region. Turkmenistan is the polar opposite, where the president has established a personality cult and has minimized economic change. 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. Uzbekistan retained a tightly controlled political system, but without the personality cult of Turkmenistan, and its economic reforms have been gradual and modest. Tajikistan has been in a different category, because it was the only one of the five countries not to evolve peacefully from Soviet republic to independent state under unchanged leadership. The bloody civil war of 1992–93, which reignited in 1996–97, dominated political developments and delayed implementation of a serious and consistent economic strategy.

The five countries' economic performance has differed, to some extent reflecting policy choices, but since 2000 the comparative situation has been dominated 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, as a significant oil and gas producer which has also had major new discoveries coming on line, has experienced an economic boom. Turkmenistan, despite its abundant natural-gas reserves, has suffered from dependence on Soviet-era pipelines, but since 1999 the energy boom appears to have alleviated pressures to change the country's poor economic policies. 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 from a very deep trough, but slowly, and Tajikistan now ranks among the world's poorest nations.

The remainder of this chapter provides further background on the initial conditions and choice of development strategies, and provides preliminary assessments of comparative economic performance and a snapshot of social and economic conditions a decade after independence. Chapters 2–6 examine each national economy in greater detail, and Chapter 7 reviews the relative economic performance of the five countries. Patterns of which households gained and which lost from the transition to a market economy are analyzed in Chapter 8. A key issue in explaining international differences in performance is the individual countries' natural-resource endowment, the consequences of which are analyzed in Chapter 9. The importance of natural-resource exports served as a catalyst for integration into a wider economic circle, and Chapter 10 analyzes alternative strategies, multilateral and regional, pursued by the Central Asian countries. Chapter 11 draws some conclusions.

1.1 Initial Conditions and Choice of Economic Policies

Comparing the economic development strategies and the performance of the new independent countries of Central Asia is intellectually exciting because they started

from fairly similar initial conditions. Before independence they were all republics of the Soviet Union, and had the same economic system. Although during the Gorbachev era some local economic experiments had taken place in the Baltic republics, parts of the Russian republic, and elsewhere in the USSR, such experiments had been absent from Central Asia, which was generally viewed as the most conservative area in the USSR.

Together with Azerbaijan, the other majority Islamic republic, the Central Asian republics were the poorest Soviet republics. Although inequality, as measured by Gini coefficients, did not differ much from the Soviet norm, they had the largest proportion of households living below the poverty line (Table 1.1). Human-capital measures, such as life expectancy or the almost universal literacy, were, however, high for the income level.

Per capita output in 1990 has been estimated at between \$1,130 and \$1,690 for the four southernmost republics and \$2,600 for the Kazakh republic. Although the relative values in Table 1.1 are a reasonable guide to the ranking of Soviet republics by living standards, the absolute dollar values must be treated with caution due to the insoluble problems of the Soviet Union's artificial relative prices. The World Bank estimates in Table 1.1 place the Kazakh republic's 1990 per capita GNP of \$2,600 on a par with that of Hungary (\$2,590) and somewhat lower than Iran's (\$3,200), while the other four republics had per capita GNP comparable to that of Turkey (\$1,370) or Thailand (\$1,220); post-1991 experience suggests that the Central Asian republics were behind these comparators.²

The Central Asian republics' economic role in the USSR had been as suppliers of primary products—mainly cotton, oil, and natural gas—and minerals, although the specific resource endowment varied from country to country. The Kazakh republic's higher living standards reflect a more diversified economy with grain exports and a variety of mineral and energy resources. Central Asia was the most heavily rural part of the USSR, and Kazakhstan was the only one of the five Central Asian republics with over half of its population living in urban areas (see Wegren 1998, p. 164).³ The Uzbek republic's economy was dominated by cotton, as were neighboring parts of the other republics. Turkmenistan had experienced a boom in natural-gas production during the final decade of the USSR, while the mainly mountainous Kyrgyz and Tajik republics had fewer exploitable resources.

The terms of trade calculations in Table 1.1 reflect the underpricing of energy and overpricing of manufactured goods in the Soviet economy. Kazakhstan and Turkmenistan as major exporters of oil and natural gas would benefit substantially from replacing the artificial Soviet prices by world prices, while the other Central Asian successor states would gain sufficiently from improved prices for cotton and minerals and lower prices for manufactured goods to more or less offset the higher

² Figures for Iran, Hungary, Turkey, and Thailand are from the World Bank, World Development Report 1991, pp. 204–05. Issues raised by such comparisons are discussed in Chapter 7.

³ This was still true in 2002 (Table 1.7).

Table 1.2. Inflation (change in consumer price index) 1991–2004 (percent).

	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
Turkmenistan	103	493	3,102	1,748	1,005	992	84	24	17
Uzbekistan	82	645	534	1,568	305	54	59	29	18

Source: EBRD Transition Report Update, April 2001, p. 16.

	1998	1999	2000	2001	2002	2003	2004
Kazakhstan	7	8	13	8	6	6	7
Kyrgyz Republic	11	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: EBRD Transition Report Update, April 2004, p. 17.

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

prices of energy imports. In practice, Uzbekistan benefited from the shift to world prices because it was able to reduce its dependence on imported fuel and because world cotton prices boomed during the first half of the 1990s, while Kazakhstan and Turkmenistan were unable to immediately benefit because the dominant exit route for their oil and gas exports was via the monopsonist Russian pipeline network.

The Central Asian republics were almost totally unprepared for the rapid dissolution of the Soviet Union in 1991.⁴ As new independent states at the end of that year, they faced three major economic shocks: transition from central planning, dissolution of the Soviet Union, and hyperinflation. Dismantling the centrally planned economy created severe disorganization problems, which led to output decline everywhere in Central and Eastern Europe (Blanchard 1997). The dissolution of the Soviet Union added to these problems as supply links and demand sources were disrupted by new national borders and attempts to retain resources within these borders. In Central Asia the absence of any tradition of nationhood and the need to create new national institutions compounded these difficulties. Attempts to maintain existing commercial and political links by retaining a common currency fueled hyperinflation (Pomfret 1996, pp. 118–29).

Prices increased very rapidly in 1992, by more than 50% per month in all five countries (Table 1.2). The currency became the dominant economic issue in 1993,

⁴In the March 1991 referendum on the future of the Union, support for keeping the status quo was stronger in Central Asia than elsewhere in the USSR. When conservatives tried to oust Mikhail Gorbachev in the August 1991 coup, only the Kyrgyz republic's leader, Akayev, was quick to denounce the plotters, while other Central Asian leaders, notably the Uzbek republic's Karimov, welcomed the coup.

and four of the countries introduced national currencies—the Kyrgyz Republic in May, and Turkmenistan, Kazakhstan, and Uzbekistan in November. A national currency was a prerequisite for gaining control over inflation and hence establishing a functioning market economy in which *relative* price changes could be observed and could perform their allocative function. Tajikistan was torn by civil war and did not introduce a national currency until May 1995.⁵

A national currency may have been a necessary condition for macroeconomic stability and effective economic reform but it was not a sufficient condition, and each of the countries moved along a different reform path.

The Kyrgyz Republic is usually viewed as one of the most dynamic reformers among the former Soviet republics. It has been strongly supported by international institutions such as the IMF and World Bank, and in July 1998 became the first former Soviet republic to accede to the WTO. The Kyrgyz Republic was the first Central Asian country to succeed in curbing hyperinflation, bringing the annual inflation rate below 50% in 1995. Creating the institutions needed to support a functioning market economy was, however, more arduous, and important markets like the foreign exchange, domestic capital, and national labor markets are still not effective in allocating resources. Manufacturing output fell substantially during the 1990s, and the increased proportion of GDP that was made up by agriculture primarily reflected urban–rural migration as unemployed urban workers returned to their family’s village. The only major growth pole has been the Kumtor gold mine. These structural problems may reflect the initial backwardness of the economy, not just in income levels but also in human capital, which has been exacerbated by substantial emigration.⁶ The impetus for reform in the Kyrgyz Republic slowed after 1998 when the economy was hit by contagion from the Russian Crisis and by a domestic banking crisis, but reforms have been resumed in the twenty-first century.

Kazakhstan had a better base for creating a market economy, given its higher living standards and human-capital endowments, and it too was initially viewed as one of the more reformist Soviet successor states. Although macroeconomic control was attained more slowly than in the Kyrgyz Republic, with an annual inflation rate of 50% achieved in 1996, Kazakhstan did move fairly quickly with price liberalization and enterprise reform. In the mid-1990s, however, the privatization process and policies towards energy and minerals rights were associated with widespread corruption and a sense of casino or crony capitalism similar to that which emerged in Russia in 1995–96.⁷ Kazakhstan’s economy was the hardest hit in Central Asia

⁵ Tajikistan had de facto a separate currency after November 1993 because it was the only country still using the Soviet ruble, but the national authorities did not control the money supply.

⁶ Both the Kyrgyz Republic and Kazakhstan experienced large net emigration, predominantly of ethnic Germans and Slavs, many of whom had above-average education and skill levels.

⁷ Two books on Kazakhstan by country specialists (Kalyuzhnova 1998; Olcott 2002 (which circulated earlier as a draft)) were both skeptical about the country’s economic and political liberalization, in contrast to more upbeat assessments in earlier reports by international institutions and independent commentators (e.g., in the World Bank, World Development Report 1996). In its concentration of economic power

by the 1998 Russian Crisis, but, following a large devaluation of the currency and more importantly the upturn in world oil prices, Kazakhstan's economy began to grow rapidly after 1999.

Uzbekistan is often viewed as one of the least liberalized among economies in transition from central planning. To some extent, however, this reflects jaundiced views by the international financial institutions, with which Uzbekistan has been on frosty terms,⁸ and a conflation of political and economic considerations. Although the political regime is authoritarian and illiberal, the economy has been gradually reformed since independence. Macroeconomic control was achieved more slowly than in the Kyrgyz Republic or Kazakhstan, with inflation only dropping below 50% in 1998 (Table 1.2). Price and enterprise reform proceeded slowly, but by 1996 practically all prices had been liberalized and housing and small enterprises had been privatized. Cotton and wheat, however, remain subject to state orders, and privatization of large and medium-sized enterprises has proceeded at a glacial speed. Nevertheless, the government has moved, albeit cautiously, to establish a market economy and has provided good governance, at least by the low standards of the region, in moderating corruption, providing infrastructure, and maintaining social expenditures.⁹ By the second half of the 1990s the EBRD was ranking Uzbekistan ahead of Kazakhstan in its annual index of cumulative progress towards establishing a market economy.¹⁰ The government, however, took a major step backwards in October 1996 when, in response to balance-of-payments problems following a decline in world cotton prices, draconian exchange controls were reintroduced. The

Kazakhstan resembles Russia, although 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 positions of the financial, economic, and media groups are, and whether the president is the biggest oligarch or the defender of the public interest against the ten megaholdings which control over four-fifths of the economy (a claim made, for example, in the speech opening Parliament on November 3, 2004).

⁸The paper by Gürgen et al. (1999, especially pp. 3, 4, 73) is typical in its assertion rather than substantiation of the contrast between the faster reformers, i.e., Kazakhstan and the Kyrgyz Republic, and the other Central Asian economies. The IMF has, however, continued to be an impartial collector of data, and empirical studies by some IMF staff, such as those by Taube and Zettelmeyer, are admirably objective. The World Bank has also had difficult relations with Uzbekistan, but has maintained its operational program. The EBRD tried to be more positive and held its 2003 annual meetings in Tashkent, to the dismay of many human-rights groups.

⁹Corruption is pervasive in Uzbekistan, but appears to be on a smaller scale than in other Central Asian countries—petty larceny rather than grand theft—and the government seems to have succeeded in creating a stable economic policy environment and providing physical infrastructure and law and order. EBRD (1999), reporting the results of a survey of 3,000 firms in twenty transition economies, found that almost half of the Uzbek firms bribed frequently (the third highest among the twenty countries), but when asked about the quality of governance under various headings Uzbekistan came out positively, ranking fourth behind Hungary, Slovenia, and Estonia, ahead of reform leaders like Poland and far ahead of Kazakhstan (fourteenth) and the Kyrgyz Republic (nineteenth); Tajikistan and Turkmenistan were not included in the survey, but would surely have ranked poorly on governance.

¹⁰In the EBRD's Transition Report 1998 (Table 2.2.1), the unweighted average of the EBRD's eight indicators (on an ascending scale of 1–4) for the Central Asian countries was 2.1 for Kazakhstan, 2.9 for the Kyrgyz Republic, 1.9 for Tajikistan, 1.5 for Turkmenistan, and 2.3 for Uzbekistan. This is, of course, a crude measure, and the exchange controls highlighted the government's distrust of market mechanisms.

Table 1.3. Growth in real GDP 1989–2004 (percent).

	1989	1990	1991	1992	1993	1994
Kazakhstan	0	0	–13	–3	–9	–13
Kyrgyz Republic	8	3	–5	–19	–16	–20
Tajikistan	–3	–2	–7	–29	–11	–19
Turkmenistan	–7	2	–5	–5	–10	–17
Uzbekistan	4	2	–1	–11	–2	–4

	1995	1996	1997	1998	1999	1999 (1989 = 100)
Kazakhstan	–8	1	2	–2	2	63
Kyrgyz Republic	–5	7	10	2	4	63
Tajikistan	–13	–4	2	5	4	44
Turkmenistan	–7	–7	–11	5	16	64
Uzbekistan	–1	2	3	4	4	94

Source: EBRD Transition Report Update, April 2001, p. 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: EBRD Transition Report Update, April 2004, p. 16.

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

consequence was a steadily widening gap between the official and the black-market exchange rate, leading to substantial resource misallocation. The negative effects of the exchange controls were slow to assert themselves, but became gradually more onerous until they were finally relaxed in 2003.

Turkmenistan is also classified as a slow reformer, and in this case indisputably so. The president has established an extreme personality cult and adopted populist policies aimed at minimizing fundamental change. Initially, he promised the people a range of free utilities and other services, to be paid for by natural-gas export revenues, but problems in receiving payment for such exports soon undermined these promises (Ochs 1997; Lubin 1999a). National resources have been frittered away on prestige projects, such as a magnificent presidential palace and a new national airport, and a large debt has been accumulated to fund import-substitution projects that are unlikely to ever generate (or save) foreign currency with which to repay the loans. Despite some promises of reforms after a major economic crisis in

1997, there is little evidence of change, either economically or politically.¹¹ Prices remain distorted, favoring import-substitution projects, especially in textiles and petrochemicals, and hurting farmers. After the president declared himself president for life, the EBRD took the unprecedented step of banning all public-sector loans to Turkmenistan, which underlined the increasing isolation of the country.

In Tajikistan the centrally planned economy was rapidly destroyed by civil war, rather than being reformed by a central government. A market economy emerged in the vacuum, but implementation of consistent economic policies was frustrated by the intermittent civil war throughout the 1990s. The economic disruption is captured in the huge decline in per capita output during the first half of the 1990s (Table 1.3), and even after peace was negotiated in 1997 the political situation remained fragile and the government's authority still did not cover the entire national territory. The poor security situation discouraged investment, and lack of unified control also deterred economic activity because separate agencies sought to raise revenue by taxes and fees. The government was kept afloat in the early and mid-1990s by military loans from Russia and, after 1997, by aid from the multilateral international financial institutions and from other donors. Since 1997 legislation has been liberal, but implementation is poor, and it is difficult to judge whether current policies should be assessed on the basis of the former or the latter.

1.2 Economic Growth Performance Since Independence

All of the Central Asian countries suffered a sharp drop in real output during the first half of the 1990s (Table 1.3), the impact of which on living standards was exacerbated by the cessation of intra-USSR transfers and by increased economic inequality. The initial decline in output is difficult to measure because of the problems of valuing Soviet-era output for which there was no demand after the end of central planning and because of quality changes and new products. Revaluation of energy products provided a boost to estimated GDP in Kazakhstan and Turkmenistan, which partly offset the decline in quantities. In Tajikistan the disruption of civil war led to an exceptionally sharp fall in output in 1992, which continued until 1995–96. With these caveats in mind, we can attempt to relate changes in real GDP to the initial conditions and policies described in the previous section.

Real GDP in the five countries followed very different time paths. Tajikistan is the easiest to explain, with the civil war destroying economic activity until the 1996 cease-fire, when real output had fallen to just over two-fifths of its level at independence. Growth rates have been fairly high since 1997, but this reflects recovery from a low base and by 2003 GDP was only two-thirds of its 1989 level. Turkmenistan, which had more abundant natural resources and enjoyed a decade of peace, was in

¹¹ Several CIS customers fell behind in payments for their gas and in 1997 Turkmenistan responded by cutting off deliveries, with a dramatic impact on its GDP (Table 1.3); deliveries were only resumed in 1999.

a similar position by 1997, albeit with a different time path. Turkmenistan's decline in real GDP was comparatively slow in 1992–93, accelerated in 1994–96, and went into collapse in 1997. Although growth accelerated in 1999 when gas exports were resumed and Turkmenistan benefited from rising energy prices in the early 2000s, there are questions about the reliability of Turkmenistan's economic data after the mid-1990s and it seems probable that, notwithstanding the high official growth rates, the economy has been in serious trouble and that this is due to poor and unsustainable economic policies.¹² The other three countries' experience is more complex and more interesting.

The Kyrgyz Republic saw real GDP decline by 45% between 1991 and 1995. This was due to the three shocks described in the previous section, the impact of which was not softened by possession of readily tradable natural resources. The decision to adopt the most radical economic reforms in the region and the most rapid macroeconomic stabilization also exacerbated the severity of the post-independence recession. The theory of rapid reform—which has been vindicated, to some extent, by Polish experience but is still a matter of debate—implies that after the pain the Kyrgyz Republic should have been best placed to grow once it had the institutions of a market economy in place. The Kyrgyz economy did indeed grow by 15% between 1995 and 1997, but it is unclear to what extent that was sustainable given the doubts about whether in fact the Kyrgyz Republic has a well-functioning market economy. Much of the economic growth originated in one project, the Kumtor gold mine, which boosted real GDP during the investment stage in 1996–97 and has added to real GDP since then. In 1998 economic growth was slower, due to the Russian economic crisis, domestic bank failures, and poor agricultural performance. The reform impetus slowed after 1998, when growth was anemic due to adverse weather conditions compared with those which abetted the bumper harvests of 1996 and 1997. In the early 2000s growth picked up, but it continued to be greatly influenced by Kumtor, where a landslide in 2002 was sufficient to knock the economy's growth down to zero (Table 1.3).

Kazakhstan's decline in real GDP in the first half of the 1990s was less than that of the Kyrgyz Republic, which may reflect the former's more abundant resources and perhaps its less radical reforms. After 1995 Kazakhstan's real GDP remained above that of the Kyrgyz Republic, but Kazakhstan did not enjoy the growth that the Kyrgyz Republic had in 1995–97. The Kazakhstan economy was then buffeted by the Russian Crisis in 1998 and real GDP was probably little different by the end of the century than it had been in 1995.¹³ The proximate causes of the disappointing long-term

¹²The reliability of data will be an issue throughout this book, but, apart from the war years in Tajikistan, the situation is clearly worst in Turkmenistan. The figures quoted in this book are mostly 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.

¹³The decline in output and low inflation in 1998 and 1999 were related to a large real appreciation of the currency, which was reversed in April 1999 when the tenge was allowed to float. One positive feature

performance by the potentially best-placed new independent state in Central Asia were exogenous developments such as commodity price trends, interminable delays in establishing new oil-pipeline routes from the Caspian Basin to non-CIS markets, and the August 1998 Russian economic crisis. More fundamentally, the poor performance reflected a failure to truly reform the economy so that it could better weather such shocks. Perhaps even worse in terms of long-term growth prospects, central planning appeared to be being replaced by a rentier economy in which insiders live off the resource rents rather than generating new output. Towards the end of 1999 the economic situation changed dramatically as world oil prices began to increase and in 2000 a major new oil field, Kashagan, was discovered. During the first half decade of the 2000s Kazakhstan was clearly experiencing an oil-led boom, and its economy substantially outpaced the rest of Central Asia.

Uzbekistan's economic performance has posed the greatest puzzle among all former Soviet republics. The initial decline in real GDP was fairly moderate—at least by the awful standards of the former Soviet Union in 1992–93. This could be ascribed to the avoidance of reform, but such stability has proven short-lived in other nonreformers such as Belarus and Turkmenistan, whose unreformed economies continued to stagnate or decline in the late 1990s. Uzbekistan, in contrast, halted the decline in real GDP in the mid-1990s and even enjoyed modest economic growth during the second half of the decade. The relatively good performance between 1991 and 1996 was helped by buoyant world prices for Uzbekistan's two main exports, cotton and gold, although this appears to be only a partial explanation.¹⁴ Both commodities' prices fell substantially in the second half of the decade, but Uzbekistan's GDP grew fairly steadily after 1995. Whether the gradual reform strategy is sustainable became more doubtful. The economy continues to grow in the twenty-first century and living standards are higher than they previously were, but the relative picture is quite different; whereas Uzbekistan felt it was performing far better than Kazakhstan in the 1990s, after the turn of the century it was ever more obvious that it was economically falling further and further behind its neighbor and rival for regional hegemony. Moreover, the growth rate began to slip in 2003 and 2004 despite an upturn in world cotton prices. Although the causes of political unrest, dramatized by the Andijan massacre in May 2005, are disputed, economic discontent was a contributing factor.

Two macroeconomic aggregates shed further light on comparative performance. The Soviet successor states suffered a drastic loss in public revenue, both absolutely and relative to the falling GDP, although there was a big range between Tajikistan with public revenue at 10% of GDP and Uzbekistan with 30% in 1995 (Table 1.4).

of these two years was that, despite widespread belief that Kazakhstan would default, the government continued to fulfil domestic and foreign debt-service obligations.

¹⁴ Taube and Zettelmeyer (1998) and Zettelmeyer (1998) analyze the Uzbek puzzle and conclude that data deficiencies and favorable initial conditions and exogenous events only explain part of Uzbekistan's relatively good 1992–96 output performance, and policy must be given some of the credit. Spechler (1999, 2000) and Pomfret (2000c) also analyze Uzbekistan's policies and performance during the 1990s.

Table 1.4. Government revenue (“Rev.”) and expenditure (“Exp.”) as percentages of GDP 1995–2002.

	1995		1996		1997		1998	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
Kazakhstan	22	26	17	20	17	19	18	25
Kyrgyz Republic	17	28	16	22	16	22	18	22
Tajikistan	10	17	12	18	15	19	11	14
Uzbekistan	30	33	34	36	30	32	31	33

	1999		2000		2001		2002	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
Kazakhstan	18	22	22	22	22	22	22	21
Kyrgyz Republic	16	20	14	18	16	18	18	21
Tajikistan	12	15	12	13	14	13	18	N/A
Uzbekistan	29	31	28	29	26	28	26	28

Source: Asian Development Bank, *Key Indicators*, 2003.

Note: N/A denotes not available in the source.

Table 1.5. External debt, as percentage of GDP 1993–2002.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakhstan	7	14	19	14	18	28	36	65	65	71
Kyrgyz Rep.	16	30	41	62	76	91	139	133	112	112
Tajikistan	23	20	51	66	95	94	117	104	100	95
Turkmenistan	6	9	7	32	66	79	N/A	N/A	N/A	N/A
Uzbekistan	5	5	18	17	19	21	28	32	41	58

Source: World Bank, “World development indicators,” www.worldbank.org.

Notes: N/A denotes not available in the source; inherited external debt in 1992 was zero.

An important issue for Tajikistan, the Kyrgyz Republic, and, to a lesser extent, Kazakhstan was the rebuilding of their tax-raising capacity in the late 1990s and early 2000s. Uzbekistan, by contrast, maintained public revenues and expenditures, which partly explains better aggregate performance over the 1990s. After 1998, however, Uzbekistan addressed the opposite problem of reducing the share of government revenue and spending in GDP as part of cutting back the state’s role in the economy.

For the two poorest countries, Tajikistan and the Kyrgyz Republic, government expenditures were not allowed to fall as far as public revenue. Faced with the dilemma of how to finance the budget deficit without inflation, the Kyrgyz Republic borrowed abroad to fund public spending. The consequence was a rapid buildup of external debt between 1992 and 1999 (Table 1.5). Tajikistan ran smaller budget

deficits and funded them with more inflationary finance than the Kyrgyz Republic, but it too had a debt/GDP ratio over 100% by 1999. The Kyrgyz Republic's borrowing was largely from international financial institutions such as the World Bank and the IMF. Tajikistan's was mainly bilateral borrowing from Russia and, to a lesser extent, Uzbekistan for military purposes during the civil war.

The five countries' foreign trade is summarized in Table 1.6. These numbers need to be treated with caution, especially for the years 1992 and 1993 when the region was still using a common currency and trade within Central Asia and with important trading partners such as Russia and Ukraine went largely unmonitored. Even after the establishment of national currencies and functioning national customs services, the coverage of official trade statistics remained far from complete. Imports are under-invoiced or not declared. Small-scale traders (referred to as shuttle traders in the region) account for a large amount of imported consumer goods and other trade, but the recording of this trade is uneven.¹⁵ Illegal trade is also important, with widespread smuggling and with the Afghanistan-originating drug trade passing through the five Central Asian countries. Even the data that are recorded are not always released, e.g., gold output and exports in Uzbekistan are state secrets and the Uzbekistan exports in Table 1.6 may be understated by as much as a billion dollars.

The Central Asian countries have open economies, in the sense of high trade/GDP ratios.¹⁶ After the major shocks of the early 1990s, trade recovered in the Central Asian countries in 1994–97. In both the Kyrgyz Republic and Tajikistan, per capita values remained small and total trade declined between 1997 and 2002. The relatively superior export performance of Kazakhstan and Uzbekistan in the mid-1990s was due in part to favorable energy and cotton prices, and their divergent experience after 1997 is partly explained by low world cotton prices between 1997 and 2001 and by booming oil prices since 1999. Turkmenistan's exports are dominated by energy products and the 1995–96 values are inflated by overreporting of natural-gas exports to CIS destinations which were not paid for (the invoice value was recorded as exports, while the accumulating payment arrears were recorded as foreign assets); recognizing that the bills would never be paid in full, Turkmenistan stopped supplying gas in March 1997, after which export values (and GDP) collapsed until the gas flow was resumed in March 1999.¹⁷

¹⁵ Pomfret (1999b, p. 32n) reports official estimates from Kazakhstan of shuttle trade accounting for a quarter of total imports in 1995, a third in 1996, and almost half in 1997, but these are based on heroic assumptions.

¹⁶ Export/GDP ratios estimated by World Bank staff with 2000 data are Kazakhstan 59%, Kyrgyz Republic 42%, Tajikistan 81%, Turkmenistan 63%, and Uzbekistan 25% (Freinkman et al. 2004, p. 9).

¹⁷ Turkmenistan's economic data are the least reliable in the CIS. According to nongovernment sources (reported in Pomfret (2001, p. 158)), gas exports fell from about a billion dollars in 1996 to \$70 million in 1997, and this coincided with a poor cotton harvest due to which cotton exports fell from \$332 million in 1996 to \$84 million in 1997.

1.3 Distribution

In all countries in transition from central planning to market-based economies, income inequality increased. For the Central Asian countries, given their low initial incomes and declining average incomes during the first half of the 1990s, the outcome was high poverty rates. The data are less convincing than for real output,¹⁸ but in the most thorough attempt to assemble comparative data, Milanovic (1998) found that in 1993–95 the Kyrgyz Republic had the highest poverty rate of any Eastern European or former Soviet economy. Unemployment has also increased although this too is difficult to measure; more clear-cut was the decline in employment during the 1990s, especially in Kazakhstan.¹⁹ These distributional considerations raise the important question of who have been the winners and losers from the transition from Soviet central planning to the more market-oriented national economies.

Average incomes fell and inequality increased throughout Central Asia during the 1990s, but there is ample evidence that there were winners as well as losers. Stories of profiteering and corruption are backed up by the presence of Mercedes and BMW cars in Almaty and Ashgabat. Everywhere members of the old elite in the capital cities were the people best able to protect themselves against economic hardship and to benefit from new opportunities, while most of the employees of the state enterprises in heavy industries and state farms lost their economic advantages.

The regional shifts are clearest and have been best documented in Kazakhstan. The coal mining oblasts (provinces) of Karaganda and Pavlodar had 16.6% of the national population and 29.3% of GDP in 1993, with per capita product about double the national level, but by 1998 they were producing only 19.1% of GDP, their population share had fallen to 14.8%, and per capita product was only 25–30% above the national level.²⁰ Meanwhile, the population share of Almaty, the Soviet-era capital city and economic and financial capital, and its surrounding oblast increased from 16.7% to 18.0% and share of GDP from 14.2% to 21.4%; per capita income in Almaty jumped from 40% above the national average in 1994 to more than double the national average in 1998. These are large changes over such a brief period. The petroleum-producing regions of Atyrau and Mangistau only increased their

¹⁸Falkingham (1999) analyzes the problems and pitfalls associated with Central Asian household-survey data. Anecdotal evidence supports the conclusion that poverty increased markedly in the Kyrgyz Republic during the early years after independence (e.g., Howell 1996a,b), but the poverty rates given by Milanovic are difficult to compare across countries with vastly different survey data.

¹⁹The number employed in Kazakhstan fell from 6.5 million in 1990 to 4.3 million at the end of 1995, when registered unemployment was reported at 4% (Bauer et al. 1997a, p. 3). The number employed in large and medium-sized enterprises, which still appears to cover over four-fifths of the employed workforce, declined from over 3,000,000 in 1997 to 2,015,000 in 1999 (*Kazakhstan Economic Trends* 2000 (January–March):113–14).

²⁰Figures in this paragraph are taken from Table 1 in Esentugelov (2000, p. 23). A similar picture is drawn in IMF Staff Country Report 00/29, March 2000, pp. 21–23. De Broeck and Koen (2000, p. 12) report that the regional variation in the decline in industrial output during the 1990s was greater in Kazakhstan than in other large former Soviet republics.

combined share of GDP from 9.0% to 9.5%, implying that although Kazakhstan's growth was fueled by the hydrocarbon sector the real beneficiaries were in the commercial capital rather than near the oil fields. This pattern appears to have continued during the post-1999 oil boom. There is also a widely reported phenomenon of fifty to sixty "sick towns" that depended on a single large enterprise in the Soviet era (Bauer et al. 1997a, pp. 40–41; Rama and Scott 1999). The regional picture is less pronounced in the other countries, but in all of them the relative position of the capital city's residents has improved since independence.

Our best insight into the characteristics of winners and losers comes from the Kyrgyz Republic, which has by far the best set of post-independence household-survey data (Anderson and Pomfret 2003). Analysis of the 1993 household survey found that residence in the capital city and having tertiary education both significantly increased the probability of a household being above the poverty line, while no other factor had much of an effect. Given the very high poverty rate, this implies that a small group, presumably the old elite, had weathered the storm of the early 1990s better than anybody else.²¹

More sophisticated analysis of the 1993 and 1996 surveys using quantile regressions found more complex patterns of the determinants of household living standards (Anderson and Pomfret 2000). Residence in Bishkek was again the most important positive determinant of living standards, while the poor mountainous areas and especially the southern agricultural regions fell further behind. The other very clear result was that the costs of being a large household, in terms of reduced per capita expenditure, were larger in 1996 than in 1993, and this was especially true of households with many children. These results provide strong evidence of the decline in social protection offered by the state, and of the increased cost of raising children as benefits (such as kindergartens or school meals) previously provided by the state or the workplace have disappeared. Households with many adults or pensioners were also more poorly placed in 1996 than in 1993, indicating that the value of the generous Soviet-era pensions was being eroded, but they still helped to protect pensioners in poor households.²² The impact of tertiary education was not clear-cut, although there was some evidence of a sorting effect whereby university-educated household heads appear to have moved their households up the income distribution between 1993 and 1996. The return to more vocational post-secondary education, which had been fairly high in 1993, especially in the mid-to-upper parts of the income distribution,

²¹ The studies referred to in this paragraph are by Ackland and Falkingham (in Falkingham et al. 1997, pp. 81–99) and by Pomfret and Anderson (1999). Some form of multivariate analysis is desirable because variables such as ethnicity, location, education, and household size are connected. Simple cross-tabulations showing that, for example, Slav households fared better than Kyrgyz households may be confusing ethnicity with location, household size, or education because Slav households are more likely to be urban with a better-educated head and fewer children.

²² The fiscal costs of defined-benefit pay-as-you-go pension schemes have, however, been a large burden, and the costs will increase further due to the future liability to post-1945 baby boomers. Kazakhstan instituted a personal-account system on the Chilean model in 1998, and the Kyrgyz Republic is seriously considering pension reform (Anderson and Becker 1999).

had disappeared in 1996, suggesting that state-enterprise employees with specific skills who were working their way up the seniority ladder in the planned economy have been big losers from transition. University graduates who were trained to think more broadly, even in the Soviet education system, have been better able to respond to the extreme disequilibrium of the 1990s than narrowly trained specialists.²³ Many of these patterns appear to characterize the evolution of income distribution in the other countries since independence. The evidence on these issues is analyzed in more detail in Chapter 8.

Changes in wealth distribution are likely to have been even more pronounced than changes in income distribution, although it is difficult to find data on wealth. Especially in Kazakhstan privatization transferred valuable public assets to a small group, but there is a feeling everywhere that those in power were able to use their position to obtain rents that were transformed into cars and other consumer durables or invested abroad. Privatization of the housing stock with priority to current occupiers favored the old elite, who had the best housing and, especially in the capital cities, could benefit from a tiny market in high-quality apartments to earn substantial rents from expatriates. For poor people, privatization of housing created new burdens on the household, which was now responsible for maintenance. In addition, the provision of heating, hot water, and other utilities was gradually shifted to a user-pay system.²⁴

The distributional effects of the national economic strategies adopted during the transition from central planning can be modified by individual responses and by social policy. The increased cost of children has been associated with a declining birth rate; in the Kyrgyz Republic the crude birth rate was 32.0 per thousand population in 1985, 29.3 in 1990, and 27.5 in 1996. This will eventually lead to smaller families but will take decades to work its way through; meanwhile the current generation of children will grow up with poorer education than their parents, and there will be a significant number of children growing up outside family care.²⁵ Although private health and education provision is emerging and is in some respects more efficient than the old state monopoly, many people are excluded from these services by poverty. Reduced human capital will harm future growth prospects and

²³This is not to deny that within the broader university degree the subjects of specialization probably made a difference. People with training in English or computer skills were better able to find employment after the collapse of the planned economy.

²⁴Buckley and Gurenko (1997) show that imputed income from subsidized housing played a major role in reducing inequality in the Soviet Union. Finkel and Garcia (1997) analyzed options for pricing heating in the Kyrgyz Republic and found that many users in the capital city could not afford user fees set at any level. Outside the capital the underfunded heating system often failed, and this was associated with deteriorating health (Bauer et al. 1997a, p. 48).

²⁵The increasing number of children outside the household system is a new phenomenon in post-independence Central Asia. Although orphanages existed in the USSR, they rarely catered to Central Asian children, who were taken care of within the extended family. The phenomenon of street children is still not fully accepted, let alone accurately measured; one symptom is the increased number of children being held in detention centers on vagrancy charges (Bauer et al. 1998, p. 108).

the emergence of an alienated underclass will challenge social stability, so there are strong reasons for active public policies.

Social spending has followed different national patterns. In the Kyrgyz Republic substantial foreign assistance enabled the government to maintain the share of public spending going to health and education, especially as donors encouraged investment in human capital, although the real amounts dropped with the decline in GDP.²⁶ In Kazakhstan, health care was one of the first casualties of independence, as the share of government spending going to health fell by about a third in 1992 and the percentage of GDP spent on health fell from 4% to 2%, where it stayed in subsequent years (Brooks and Thant 1998, p. 249). In Turkmenistan and Tajikistan social spending also declined as governments devoted diminishing aggregate public funds to pet projects and military spending, respectively. Uzbekistan stands out as the exception as the government there maintained domestically generated social spending (Pomfret and Anderson 1997) and introduced innovative measures to target social assistance (Coudouel and Marnie 1999), although there were growing complaints, especially after the educational reforms of the late 1990s, concerning falling standards.

1.4 The Situation in the Early 2000s

Table 1.7 provides a snapshot of social and economic conditions in the five Central Asian countries a decade after independence. The most striking feature is the much lower per capita output measured in current U.S. dollars in all five countries compared with the 1990 estimates reported in Table 1.1. The energy-rich countries, Kazakhstan and Turkmenistan, just about remain middle-income countries, although Turkmenistan's data are the least reliable in the region.²⁷ The Kyrgyz Republic, Uzbekistan, and Tajikistan have income levels comparable to some of the poorest countries in the world. Using PPP measures rather than those based on current prices and exchange rates gives a more positive picture with respect to income

²⁶There is also anecdotal evidence of regional disparities as the northern regions are treated better than the southern regions. Conditions in the two southern oblasts are described by Howell (1996a,b). Center for Preventive Action (1999, pp. 180–81) quotes from an official 1997 report on Jalalabad oblast as follows:

Since 1990, the education sector has had to cope with a severe cutback in financing. There have been virtually no allocations from the domestic budget for textbooks, school equipment or building maintenance. Teachers' salaries have fallen dramatically in real terms. Teacher morale and performance has been further undermined by the substantial delays in salary payments which are typically 2–4 months in arrears.

²⁷Even Turkmenistan's *population* is uncertain. There has been no census since 1995; the figure of 4.8 million is the number of registered residents, but alternative extrapolations yield a de facto population of 5.4 million (The United Nations System in Turkmenistan, "Common country assessment, February 2004," p. 8). For basic demographic indicators such as life expectancy at birth, other sources believe the official figure (67 years) to be inflated. *The CIA Factbook 2003*, for example, reports life expectancy at birth of 61, and less than 58 years for men (data is available online at www.cia.gov/cia/publications/factbook/geos/tx.html). The same source notes that "Turkmenistan's economic statistics are state secrets, and GDP and other figures are subject to wide margins of error."

Table 1.7. Economic and social indicators, 2002.

	Population (millions)	Population aged under 15 (% of total)	Urban population (% of total)	Life expectancy at birth (years)	GDP (billions of \$)
Kazakhstan	15.5	26	56	66	24.6
Kyrgyz Rep.	5.1	33	34	68	1.6
Tajikistan	6.2	37	25	69	1.2
Turkmenistan	4.8	35	45	67	7.7
Uzbekistan	25.7	35	37	70	7.9

	GDP per capita (\$)	GDP per capita at PPP (international \$)	ODA (millions of \$)	ODA per capita (\$)	Armed forces (thousands)
Kazakhstan	1,656	5,870	188.3	12.2	60
Kyrgyz Rep.	320	1,620	186.0	36.7	11
Tajikistan	193	980	168.4	27.2	6
Turkmenistan	1,601	4,300	40.5	8.5	18
Uzbekistan	314	1,670	189.4	7.4	52

Source: UNDP Human Development Report 2004; online statistical database at <http://hdr.undp.org/statistics> (accessed July 21, 2004).

levels. In capturing well-being, PPP is a valid corrective to the understatement of the current-price GDP measures, but it must be emphasized that no PPP measures in Central Asia are based on detailed price data, which we would normally expect if they were to be treated as accurate guides. The issue of measuring economic well-being is taken up in greater detail in Chapter 7 after the individual countries' experience has been analyzed.

The demographic data in Table 1.7 bring out similarities and differences across the countries. The four southern states have higher birthrates, and hence younger populations, than Kazakhstan. They are also more rural. These characteristics reflect Kazakhstan's more diversified and more developed economy, and its more "European" society, while the other four countries tend to be more traditionally Central Asian with a stronger hold of Islam and of the extended family. The relatively high birthrate is responsible for the rapid population growth in the region, although again Kazakhstan is the exception. Kazakhstan's population in 2002 was less than in 1990, due to the substantial emigration of non-Kazakhs and the increase in male mortality rates in the 1990s. Some of these patterns also applied in the Kyrgyz Republic, but insufficiently to have a negative aggregate effect on the population. Tajikistan was also affected by emigration, as well as by the civil war. Uzbekistan and Turkmenistan both experienced rapid population growth after independence.

Official development assistance went in almost equal measure to four of the Central Asian countries, with Turkmenistan as the exception. This translates into much higher assistance per head of population for the two poor small countries:

the Kyrgyz Republic and Tajikistan. Turkmenistan did not seek much in the way of international assistance, and the despotic nature of its regime did not encourage offers of ODA. Uzbekistan also asserted its independence, although it continued to maintain relations with the main multilateral agencies. In April 2004, however, the EBRD suspended most of its assistance due to the country's record on economic and political reform, and in July 2004 the United States declared Uzbekistan ineligible for aid, citing lack of progress on democratic reform.

The GDP figures illustrate the significant shift in the balance of economic power in the region, especially after the post-1999 oil boom pulled Kazakhstan further and further ahead of the more populous Uzbekistan. At the time of independence the Soviet successor states largely inherited all of the assets on their territory at the time, which gave Uzbekistan the largest and best-equipped army in the region.²⁸ By 2002 Kazakhstan was able to support a larger army, and as the old Soviet equipment becomes obsolete it is likely that Kazakhstan's military is becoming better equipped than that of Uzbekistan.

Measuring the extent to which the Central Asian countries have become market economies is inherently more difficult than measuring vital statistics or material well-being. The EBRD assesses progress from a planned economy to a market economy in various areas on a scale of 1–4. The most commonly reported single number, the EBRD transition index, is a simple average of the disaggregated measures. It is a very rough measure, but it indicates a clear picture. In 2004 the five Central Asian countries were all among the bottom third of the twenty-seven countries covered by the EBRD. The Kyrgyz Republic and Kazakhstan, with scores just below 3, had made the most complete transition to a market economy, while Tajikistan and Uzbekistan scored significantly lower with 2–2.5, and Turkmenistan was the least reformed of all twenty-seven countries with a score of less than 1.5.

Table 1.8 reports two commonly used indices of the type of market-based economies that the Central Asian countries now have. Based on fifty independent indicators related to freedom to trade, property rights, and so forth, the Heritage Foundation assesses the degree of economic freedom on a scale of 1–5. When the Central Asian countries were first included in 1998, they all fell in the bottom group, “repressed” economies with scores of 4–5. By 2005 they had improved their scores, but very slowly: from 4.0 to 3.29 for the Kyrgyz Republic, from 4.23 to 3.66 for Kazakhstan, from 4.30 to 4.0 for Tajikistan, from 4.68 to 4.10 for Uzbekistan, and from 4.50 to 4.36 for Turkmenistan. In 2005 the Kyrgyz Republic and Kazakhstan both fell in the “mostly unfree” category (scores between 3 and 4), while the other three countries remained in the “repressed” category, ranking among the bottom 10% of all countries. This suggests that, although the centrally planned economy

²⁸ The Soviet Army's Turkestan Military Command was headquartered in Tashkent and large Soviet bases remained at Termez and Samarkand after the end of the USSR's involvement in Afghanistan. Although Uzbekistan inherited a good part of the military equipment on its territory, this was not universal, as some Russian officers refused to accept Uzbekistan's jurisdiction (Olcott 1996a, pp. 130–31).

Table 1.8. Indicators of economic freedom and of corruption, 2004–2005.

	Heritage Foundation Index Of Economic Freedom 2005	Transparency International Corruption Perceptions Index 2004
Kazakhstan	3.66 (130th)	2.2 (rank 122–128=)
Kyrgyz Republic	3.29 (97th)	2.2 (rank 122–128=)
Tajikistan	4.00 (144th)	2.3 (rank 114–121=)
Turkmenistan	4.36 (151st)	2.0 (rank 133–139=)
Uzbekistan	4.10 (147th)	2.0 (rank 133–139=)

Sources: Heritage Foundation, *2005 Index of Economic Freedom*, available at www.heritage.org; Transparency International (TI) Corruption Perceptions Index, available at www.transparency.org/cpi/2004/cpi2004.en.html#cpi2004 (both accessed in February 2005).

Notes: numbers in parentheses are the country's rank; the Heritage Foundation ranked 155 countries on a scale from 1 (free) to 5 (unfree); the TI Index is based on perceptions by businesspeople and country analysts on a scale from 1 (most corrupt) to 10 (least corrupt) (145 countries were covered in 2004).

has been largely displaced, the market economies that have been constructed offer very limited economic freedoms and these freedoms are only increasing slowly. According to the Corruption Perceptions Index reported by Transparency International, all five countries have high levels of corruption (with scores between 2 and 2.3 on the ten-point scale in 2004), which also indicates that they have poorly operating market economies.²⁹

1.5 Conclusions

The five new independent states of Central Asia emerged from the Soviet Union with similar economic systems and some similarity of economic structure. By the twenty-first century their economic experiences were becoming sharply differentiated.

The two countries that were in the worst position when they became independent have perhaps done as well economically as they could have done in the circumstances. The Kyrgyz Republic adopted rapid and basic reforms, but due to its backwardness had difficulty actually establishing a well-functioning market economy. The severe decline in living standards may have been exacerbated by the rapid reform strategy, but this is unclear, as is the relationship between the degree of liberalization and the growth prospects for the 2000s. Tajikistan has had a grim economic experience since independence, but this was largely shaped by the civil war which waged on and off for most of the 1990s.

The biggest puzzle has been Uzbekistan, which is often characterized as a slow reformer, and during the 1990s had the best economic performance of all Soviet successor states. Perhaps Uzbekistan could have performed even better with a different

²⁹ By the TI index only Azerbaijan, Paraguay, Chad, Myanmar, Nigeria, Bangladesh, and Haiti had more corruption than Tajikistan and Turkmenistan. By the Heritage Foundation Index only Zimbabwe, Libya, Myanmar, and North Korea offer less economic freedom than Turkmenistan.

economic system, but the government did well enough on the policy front to limit the economic decline in the first half of the 1990s and to generate modest economic growth during the second half of the 1990s. This mainly seems to be due to good governance, at least by the low standards of the region. In the early years of the twenty-first century Uzbekistan's economic performance was less impressive, perhaps due to the increasing burden of exchange controls until they began to be eased in late 2003. The foreign-exchange controls introduced in 1996 were symptomatic of a distrust of market forces, and the broader failure to establish a well-functioning market economy is likely to restrict future growth.

For Kazakhstan and Turkmenistan the picture is dominated by their oil and gas reserves. In Turkmenistan gas wealth has clearly undermined the country's political and economic development, as an autocratic regime has appropriated the revenues and inhibited development of either civil society or a sustainable economic strategy. Kazakhstan, while also an autocratic regime under a single post-independence president, has a more developed civil society and a more nuanced record. Since the turn of the century, Kazakhstan has enjoyed an oil boom, which has pulled its living standards noticeably above those of the four southern Central Asian countries. Many countries' experiences have shown that oil can be a curse rather than a blessing when it comes to generating long-term growth with equity, and for Kazakhstan the downside of its transition to a market economy has been the increased corruption, which could lead to a "curse" outcome.

As with the other countries in the region, Kazakhstan's economic evolution remains a work in progress, with big changes not to be ruled out. The economic changes are in higher gear in Kazakhstan due to the frenetic pace set by the oil boom as world prices rose from less than \$10 a barrel in 1998 to over \$60 in 2005, and as exploration in the North Caspian revealed in 2000 the biggest new oil field in the world since the 1970s. In all five countries the greatest uncertainty, and potential catalyst for economic change, concerns the political regime.

By the early 2000s the five countries had established super-presidential systems with concentrated power and weak legislatures. Kazakhstan, the Kyrgyz Republic, Turkmenistan, and Uzbekistan were the only former Communist countries of Eastern Europe and the CIS to have an unchanged top leadership since the upheavals of 1989–91. As the region's autocratic rulers grow older and look over their shoulders at the 2003 rose revolution in Georgia and the 2004 orange revolution in Ukraine, and closer to home the 2005 tulip revolution in the Kyrgyz Republic, change looms but its form is uncertain. Possible alternatives to a more democratic future are that leadership will be kept in the family, as in Azerbaijan, or in the elite, as in Russia, or there could be reversion to civil war, as in Tajikistan. The outcome will be influenced by economic conditions and will have consequences for each country's economic future.