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Topical Issues of Interaction within the SCO

RUSLAN IZIMOV

Though it is recognized by the international community as an effective regional organization, the SCO is still troubled by a number of unresolved issues. The most pressing of these is the Afghan problem, which, once the international coalition troops are withdrawn, may grow into a major destabilizing factor within the organization's zone of responsibility.

In addition to this, the issue of how to sustain political stability in some Central Asian states is gaining significance. This calls for improvements in the effectiveness of emergency response mechanisms in the SCO member countries. Future expansion of the organization through the admission of new members is a permanently topical issue for the SCO.

The Afghan Problem as Seen by Chinese Experts

Leading Russian and Central Asian experts forecast that the situation in Afghanistan is likely to become unstable after international coalition troops withdraw. Under the pessimistic scenario, a bloody civil war could break out in Afghanistan. The outcome of such confrontation would bring unpredictable consequences for the countries of Central Asia; mass migration of refugees, terrorists crossing the Tajik and Turkmen borders, increased drug trafficking, etc.

Under the optimistic scenario, the countries of the region will pool their efforts in order to play a greater role in the Afghan settlement. However, the crucial issue here is the way in which Central Asia and the SCO would participate in this.

Clearly, the SCO states are of the opinion that the political and military situation in Afghanistan is one of the crucial external situations that requires an

appropriate and swift response. Today, despite the lack of agreement on the SCO's role and potential in settling the Afghan problem, the need to strengthen joint action to counter the threats from Afghanistan occupies a prominent place in the foreign policies of the Central Asian states, Russia, and China.

For instance, Chinese analysts believe that Washington is not interested in fully withdrawing its troops from Afghanistan. According to Chen Yurong, Head of the SCO Research Center at the China Institute of International Studies, the US will seek to secure a permanent presence in Afghanistan and Central Asia after 2014 as a long term strategic deterrent to China and Russia in the region [1]. With this in mind, Chinese researchers believe the SCO member states should not allow the US to implement its Greater Central Asia project and thus eliminate the potential for further "color revolutions".

In an article *The Attitude of the Afghan Government and Opposition to the NATO Summit in Chicago* a Chinese expert writes that, "The transfer of power to the Afghan government is too hasty since they are not ready for this". Under the Chicago Convention, NATO members envisage intensive training for local governance bodies. However, the author claims that the training period is too short and the complexity of the training compounded by low levels of literacy among the majority of the Afghan soldiers [2].

The Chinese experts' concern is understandable, especially given the expansion of people camps in Afghanistan, in which, according to some Chinese data, the number of participants originating from the North Caucasus and Central Asia has dramatically increased. With these threats in mind, Chinese analysts suggest stepping up the dialogue and consultations within the SCO. Chen Yurong suggests the SCO should take the following steps in order

to engage successfully in the Afghan settlement process:

- raise the status and level of the SCO-Afghanistan contact group to become a key platform for SCO inclusion in the Afghan settlement;
- step up consultations to discuss Uzbekistan's Six-plus-Three proposal and consider including other SCO members in the initiative (Kazakhstan, India);
- intensify cooperation between the SCO and CSTO;
- enhance interaction and coordination between China, Russia, and India; and
- attach key importance to the economic recovery of Afghanistan [3].

The Chinese authorities are also clearly preoccupied by the Afghan issue. On May 23, 2012, Chinese deputy foreign minister Chen Gopin stated that China supports the view that "Afghanistan must be governed by Afghans" and stands opposed to foreign military intervention in this country. Cheng asserted that the Afghans need to be given the right to resolve their problems themselves; the SCO in that context could act as a platform for dialogue [4].

Another prominent Chinese expert on the Afghan agenda, SIIS member Shao Yuqun, believes that the withdrawal of international forces will put Tajikistan and Uzbekistan in an extremely vulnerable position. The ascendancy of the Taliban threatens to intensify military action in the border areas with Central Asia. In this situation Dushanbe and Tashkent, in an attempt to maintain internal stability, will be forced to seek support from the regional and global powers. Here the US may once again step in as a guarantor of security, thus extending its military and political cooperation with the countries of the region. Moreover, Shao Yuqun believes that the US administration will try to use what he describes as its "proxy war formula." In such circumstances, Washington may consider this an opportunity to sell some of its weapons exports to Afghan Uzbeks, Tajiks, and Pashtuns [5].

Given the importance of a swift resolution of the Afghan problem in the context of maintaining the security of China's western regions as well as Chinese economic projects under way in Afghanistan, Chinese analysts are considering the possibility that China could participate in the struggle for influence in this country.

Kazakhstan's interests in an Afghan settlement are primarily based on the need to resolve the Afghan issue by complex methods both political and economic.

Thus, the potential involvement of the SCO in resolving the situation in Afghanistan remains somewhat ambiguous because of inconsistency in the positions of the member states themselves, as well as discrepancies in assessing the level of the threat emanating from Afghanistan. However, each and every SCO member state is interested in a timely resolution of the Afghan crisis and at this point the only question is what form such a resolution should take.

Opportunities and Prospects for SCO Participation in Resolving Conflicts within its Zone of Responsibility

One of the most pressing issues for the SCO at present is the lack of available mechanisms for responding to force majeure situations occurring in its area. There has been a noticeable lack of response by the member states to the emergencies that have occurred within their territory, or their involvement in other conflicts. For example, the SCO gave almost no response whatsoever to the conflict in South Ossetia in 2008, the riots in Xinjiang in 2009, and the coup and ethnic clashes in Kyrgyzstan in 2010.

In fact, these situations called for clear and decisive reaction from the regional security structures, primarily from the SCO. Currently, however, the organization has not yet developed policy measures to respond adequately to such challenges. The organization's main legal security document remains the *Program for Cooperation among SCO Member States to Combat Terrorism, Separatism and Extremism*. But this agreement cannot serve as a legal framework for coordinating the countries' actions and rapid response to emergency situations in the SCO area.

In this regard, there is a need to reinforce the SCO advisory and institutional mechanisms that aim to eliminate conflict on the territory of its member countries. At the Yekaterinburg Summit, the SCO states adopted such a document but it was never implemented. Only the Beijing Summit of June 2012 resulted in the adoption of the *SCO Regulations on Political and Diplomatic Measures*

and Mechanism of Response to Events Jeopardizing Regional Peace, Security and Stability.

China was one of the initiators of this document. It appears that the Chinese authorities are seriously concerned about the recent events in the Middle East. The articles written by Chinese experts show that increasing importance is attached to external factors particularly regarding the intentions of the USA. In this context, Chinese analysts have repeatedly proposed revising the country's position on non-alignment with organizations with a military-political orientation. In late January 2012 *Jenmin Jibao* published an article by Dai Xu, a research fellow at the Chinese Center for Strategic Studies at Beijing University entitled *China and Russia Should Create a Eurasian Alliance*. In this article the author expresses his concern about the escalation of tension in the Eurasian region and calls on Russia to create an alliance in order to stand together against the US [6].

Expansion of the SCO

Expansion through the admission of observing countries has been high on the agenda at the last few SCO summits. However, the expert community within the SCO states still widely concur that the enlargement of the organization at this stage is not expedient. The expansion, particularly in view of the motivation of each of the applicant countries, would bring certain risks and may provoke new challenges, especially with regard to relations within the SCO and with third countries.

Nevertheless, it must be understood that expansion of the organization in the medium-term is inevitable.* With this in mind, each SCO member state has its own view on the possible expansion of the organization.

Russia appears increasingly enthusiastic about India's accession to the SCO. During the Tashkent summit (2010), Dmitry Medvedev said that the expansion of the SCO to include major powers such as India would strengthen the organization's image. On April 12, 2012, Russian foreign minister Sergei Lavrov said that, "Russia will support the admission of India and Pakistan to the SCO".

China officially avoids expressing unequivocal views on this issue. With regard to SCO expansion

the Chinese are guided by *the Long-Term Good-Neighborliness, Friendship and Cooperation Treaty* between the SCO states of August 16, 2007. Pursuant to the treaty, virtually none of the current candidates can become a full member of the SCO.

Tajikistan has officially supported the accession of Iran because of the close political and economic ties between Tehran and Dushanbe. For the first time Tajikistan backed the candidacy of Iran for a permanent seat in the organization after the meeting between Rahmon and Ahmadinejad in 2008.

Kazakhstan, Kyrgyzstan, and Uzbekistan have traditionally advocated a balanced decision on the expansion issue. However, the experts of these countries opposed any hasty enlargement of the SCO.

Meanwhile, the regulations governing the admission of new member states to the SCO adopted at the organization's summit in Tashkent in 2010 automatically removed the accession of Iran from the agenda. Iran will not be able to become a full SCO member in the near future because of the UN sanctions imposed on the country. The prerequisite is one of the eight conditions for a potential member of the SCO to be eligible.

At the same time, it should be noted that the prolongation of the moratorium could the SCO less attractive. To preserve the organization's attractiveness to potential members, it would be expedient to admit one of the observer states as a permanent member.

The accession of India and Pakistan is complicated by their territorial disputes and differences in geopolitical orientation. Furthermore, the accession of these two Asian powers would mean a risk of disintegration within the SCO, which is why the process needs to be constrained. Here, it would be appropriate to add a provision on nuclear agreements to the list of the eligibility requirements. In particular, it would be reasonable to amend the relevant *SCO Charter* article to include a clause on the ratification of the *Comprehensive Nuclear-Test-Ban Treaty*.

However, throughout 2012 the debate has grown over the accession of India to the SCO. According to the most recent information, the prospect of admitting India no longer evokes any strong reaction from Beijing, which means that New Delhi can count on

* Pursuant to Article 13 of the *SCO Charter*, SCO membership is open for other states in the region that undertake to respect the objectives and principles of its Charter and to comply with the provisions of other international treaties and instruments adopted in the framework of the SCO.

achieving full membership at the Beijing summit. Moreover, it is clear that China's leaders hope that Pakistan will accede to the SCO immediately after India [7]. However the position of the Central Asian countries on India's candidacy is still unknown.

Today Mongolia stands the best chance of becoming a permanent SCO member. This country, in contrast to other observers, regards the SCO solely as a regional cooperation tool. Mongolia's membership is not likely to arouse any strong objections from Moscow and Beijing, although Mongolia's concept of the USA as its third neighbor should not be ignored. In terms of SCO relations with partner countries, the admission of Mongolia may invoke certain difficulties. In particular, Mongolia's accession may upset other contenders. Therefore, when agreeing the admission of Mongolia as a permanent member the SCO has to clearly specify the criteria which prevent the rest (*viz.*, India and Pakistan) from joining the organization.

In summary, the admission of the SCO observer states (except Mongolia) as permanent members in the short term is not advisable. In this situation, the *Dialog Partner Program* needs to be enhanced. This program allows the dialog parties to focus on the questions that concern them while avoiding any issues associated with formal membership. Such a step will help preserve interest in the organization.

Be that as it may, it remains clear that the expansion of the SCO does not help to solve any internal

stability issues among the participating countries. On the contrary, it will complicate the efforts to formulate a common policy to combat cross-border and cyber crime, as well as other threats.

Based on the above one may conclude that the current SCO members have shown great interest in taking an active part in regional issues of international terrorism, extremism, and drug trafficking. Given that the resolution of these problems is constantly in the spotlight nowadays, the SCO serves as an optimal interactive platform to discuss these issues.

The SCO member states are unanimous in their view that the escalation of the Afghan crisis, along with the lack of effective mechanisms to deal with it, will inevitably mean instability in Central Asia and Russia. However, the member states are unable to agree upon any coherent position on this issue within the framework of the SCO.

Prominent public and political figures in China, when referring to the Afghan issue, point to the negative aspects of the long-term US presence in Afghanistan and in the Asian continent in general. The Chinese expert community is engaged in active discussions over China's participation in the Afghan settlement. To effectively address non-traditional security threats the Chinese authorities are calling for joint efforts by the international community and international organizations in resolving the Afghan problem by complex means.

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Central Asia in Contemporary Politology (2011-2012) *

MURAT LAUMULIN

Not so long ago it seemed that by the end of the 2000s interest in Central Asia from abroad had exhausted itself and there was nothing new to add to what had already been written about the region. The West, which had devoted significant attention to the region due to the presence of the USA and NATO in Afghanistan, appeared to have lost its geopolitical interest in Central Asia. Washington unofficially recognized Russia's "legitimate" interests in the region as part of Barack Obama's reset policy, probably in the hope that Moscow's influence in Central Asia would be constrained by China's increasing presence.

Now, however, the picture has changed dramatically: on the one hand, Russia's desire to expedite the establishment of the Eurasian Union (led once more by Vladimir Putin, the "integrator of the post-Soviet space") has given the West a scare. On the other hand, Western strategists are uncomfortable with China's mounting influence in Central Asia. Iran, India, and Afghanistan are also forces to be reckoned within the geopolitical struggle over this region.

In short, the rivalry has in no sense diminished; instead it is entering a new phase. This is amply demonstrated by the works analyzed below. The authors do not limit themselves to the geopolitics, security, and the international status of Central Asia they scrutinize the domestic problems and the political and socioeconomic development of the region's individual countries.

Geopolitics and Security

The monograph *Mapping Central Asia: Indian Perceptions and Strategies* [2] is the result of joint efforts by French and Indian academics, all veterans of Indian Central Asian studies, among them Ajay Patnaik, Kulbhushan Warikoo, Suchandan Chatterjee, Anita Sengupta, Surendra Gopal, and prominent French Orientalists Marlène Laruelle and Sébastien Peyrouse, which makes the book an important contribution to Central Asian studies.

The book is in three parts. Part I "The Past as a Link? Reassessing Indo-Central Asian History" covers the shared history of India and Central Asia and draws parallels between the past and the present: as close neighbors, the two civilizations and regions maintained close links in the past, which were later severed. The historical memory of new post-colonial Indian elite of past contact with Central Asia has obviously bred (albeit in confabulated form) the ideas and strategic approaches of the present. The first part of *Mapping Central Asia* examines whether the mechanism of historical contact between the two regions will continue to function in the 21st century.

Part II "Contextualizing Indo-Central Asian Relations" looks at the current period as a time of hope, disillusion, and gradual shift towards pragmatism on both sides. The authors admit that up to now India has been unable to outweigh, geopolitically or otherwise, the other regional players, namely Russian Federation, the USA, EU, and

* This article continues the series covering the writings on Central Asia abroad (see: Laumulin M., Augan M. Central Asia as Viewed by Contemporary Political Analysts // *Central Asia and the Caucasus*, Volume 11, Issue 1, 2010, pp. 80-96; Laumulin M. Central Asia as Viewed by Contemporary Political Analysts // *Central Asia and the Caucasus*, Volume 11, Issue 3, 2010, pp. 109-125).

PRC. Part III “The In-Between Point of Tension: Pakistan, Afghanistan, Kashmir, and Xinjiang” analyzes the factors that strongly affect India’s Central Asian policies. The authors are latently convinced that the “geopolitical vagueness” around Central Asia is providing India with an opportunity to gain enough influence to join the ranks of the geopolitical “heavyweights”.

The authors explain that the book was prompted by two paradoxes. Firstly, in the geopolitical sense, the relations between India and Central Asia have never been studied in their political, economic, strategic, and cultural contexts. Afghanistan, “a missing link between India and Central Asia” [2, 2], remains the main point of convergence in the security sphere. Secondly, despite the relative prominence of Central Asian studies in India, the West has consistently ignored the Indian school of political studies. It remains isolated, and academic research undertaken in India in this sphere is habitually classified as Oriental studies.

It would appear that Marlène Laruelle and Sébastien Peyrouse were determined to familiarize the Western academic community with the Indian point of view. They are convinced that the book should be regarded firstly as a classical academic effort that reflects collective opinion about Delhi’s strategy in the region and, secondly, that when looking at the context of Indian-Central Asian relations, the Indian authors have preserved their individuality.

The conclusions are of no comfort to the Indians: there is a wide gap between the impressive potential that could be used to build an Indian-Central Asian alliance and India’s inadequate presence in the region that had become obvious by the end of the first decade of the 21st century. India distanced itself from the tense struggle between Russia and the USA at the geopolitical level and the rivalry for energy resources between Russia, China, and the USA. In fact, India has so far failed to make use of economic instruments to bolster its influence in the region, something which the EU, South Korea, and Japan have done.

Nevertheless, India can rely on its good relations with Russia to build up its influence in Central Asia; it has heavy “democratic baggage” that will come in handy sooner or later. India and the Central Asian states would like to end Iran’s isolation and integrate it into regional developments.

The authors, however, state very clearly that economically India is no rival for China. India is primarily interested in Kazakhstan. Potentially these two countries could become partners in space research (once Russia gets out of Baikonur), nuclear power, and information technology. In fact, the authors suggest, India, Kazakhstan, and Russia, working together, could form a highly successful geo-economic triangle.

If, in the future, energy sources (gas, electricity, and, to a lesser degree, oil and uranium) are channeled from Central Asia into South Asia, India will gain more economic weight in the region. However, the authors do not exclude a different scenario of geopolitical stagnation or unfavorable developments at the regional level. Such outcomes could either turn the region into China’s economic protectorate or be a catalyst for Islamization of the Central Asian countries.

Havins analysed the current situation and all the potential scenarios in detail, the authors conclude that the relations between India and Central Asia depend on external factors and cannot, therefore, be manufactured to order or controlled.

A collective monograph entitled *Religion and Security in South and Central Asia*, edited by Kulbhushan Warikoo of Jawaharlal Nehru University [3], reads like a supplement to the monograph discussed above. The authors have chosen a broad international context to scrutinize the rise of the Taliban in Afghanistan, Talibanization of Pakistan, policy and practices of Islamic terrorism in India, Islamic extremism in Kashmir and Bangladesh, and the terrorist network in the latter; they analyze the destabilizing role of Hizb ut-Tahrir in Central Asia, Muslim leaders in Tajikistan, ethno-religious separatism in Xinjiang, etc.

Kulbhushan Warikoo, the project editor, obviously intended to fit the Central Asian problems into the extended regional agenda by looking at the situation through the lens of the growing threat of radical Islam. He proceeded from the assumption that the Islamists reject democracy and secularism in principle. The rhetoric of political Islam, on the other hand, can be viewed as a response to the increasingly apparent economic inequality, corruption, and political impotence of Muslim societies and the moral bankruptcy of today’s Western materialist culture and its axiological system. The

Central Asian countries were also exposed to this. The region is too close to Afghanistan to remain immune to instability with Islamist undertones; the same is true of Pakistan and India, writes Warikoo.

The editor is also quite rightly convinced that the parties involved (India, China, Russia, and its Central Asian allies) should close ranks in the face of the common threat. Warikoo points to Sufism and, in the wider sense, the common cultural-religious legacy of the vast region, that in the past included Hindustan, the Middle East, and Central Asia, as a weapon to be used against militant Islamism. In fact, Warikoo calls on the Central Asian region to formulate its official policy to encourage moderate Islam in the form of the Sufi tradition. Recent developments in the region suggest that this should be seriously discussed.

The volume *China and Greater Central Asia: New Frontiers?* written by Niklas Swanström and published by the Central Asia-Caucasus Institute at Johns Hopkins University looks at China's new role in Central Asia; the book continues the academic debate initiated by the author's colleague, Frederick Starr [4].

Frederick Starr put the term Greater Central Asia into academic and political discourse; his colleague has gone even further: Swanström does not limit Greater Central Asia to Central Asia proper and Afghanistan; for him it encompasses Pakistan, Iran, Mongolia, and probably Azerbaijan in the Caucasus. Niklas Swanström points to the fact that China has gained much more influence in Greater Central Asia, a region of exceptional economic and geopolitical importance for the PRC. Unlike many of his colleagues, he is convinced that China has learned to employ "soft power" successfully (this is probably much more the case in Central Asia's southern neighbors than in the post-Soviet republics).

He describes China's policy and strategy in Greater Central Asia as focused on active use of the region's resources and markets in a way that will not alarm Russia and the Central Asian states. It seems that China expects that within a couple of generations Greater Central Asia will change its geopolitical preferences in a dramatic and as yet unpredictable way. China's increasing presence, however, clashes with the interests of the United States, Russia, and the European Union;

this may either stir up a conflict or be a catalyst for cooperation.

To gain greater influence and power, China should encourage closer economic ties inside Eurasia; this means that the long-term strategies of all the states concerned should take into account China's expansion in Greater Central Asia: it will inevitably affect their policies and tip the balance of power in Eurasia. The author looks at the problem from the European perspective: the EU and China can and should create trans-Eurasian transportation routes as soon as possible for their own benefit and improve the economic situation in Greater Central Asia. In any case, Brussels and Beijing (together with Washington) will be able to coordinate their strategies in Greater Central Asia.

The author's views on China's reliance on American methods to spread its influence far and wide raises certain questions; he also points out that mounting anti-Americanism and rapidly declining American solvency add to the pro-China bias in the region. Niklas Swanström is convinced that the main issue for the near future is whether China will join the multisided structures of Greater Central Asia.

Regional and Socioeconomic Studies

In 2011 a prominent American experts on Central Asia, Professor Frederick Starr of Johns Hopkins University, gathered together an international team to study the Ferghana Valley. The *Heart of Central Asia Study* [5] comprises fourteen chapters dealing with the region's history from ancient times to the present day; its economy, ecology, culture, Islam, and its international status are dealt with in separate chapters. The introduction and conclusion written by Starr provides the conceptual approaches.

Starr identifies the Valley as one of the world's most densely populated regions (12 million people); he argues that its ethnic, linguistic, and political diversity, and the fact that it is divided between three Central Asian states (geographically, those regions are far from their corresponding capitals), make it a unique corner of the world.

He writes that the Valley's contribution to the economies of each of the three republics is incredibly prolific: indeed, it is potentially the largest of the Central Asian markets and the world's second

largest cotton producer. Historically, the Ferghana Valley has been and remains the successor to the ancient routes that linked Europe with China and India, which would suggest that a branched network of railways and gas pipelines could restore the Valley to its former international status.

Starr believes that this fact should be enough to justify increased international attention. However, for over 20 years, the Valley has been viewed as a depressing example of enduring instability (in the Uzbek and Kyrgyz sectors in particular). He remains convinced that the Ferghana Valley does not deserve its reputation as one of the most unstable regions in the world: local issues should be resolved with the help of sociological, political, scientific, historical, linguistic, and economic data. The American scholar is convinced that all the Valley's problems, no matter how complex, are rooted in border and water disputes.

The author has formulated nine questions, the answers to which should generate a clearer picture of the Ferghana phenomenon:

(1) What are the historical experience of the peoples in the Valley that are still relevant and problematic?

(2) Is the valley a center or a periphery (in relation to other centers)?

(3) Are the history and culture of the Ferghana Valley homogenous or patchy?

(4) Have the isolationist tendencies prevailed in the Valley's past and present?

(5) What is about religion and secularism in the Valley's history and its life today?

(6) Which factors, external or internal, are more significant both socially and culturally in the Valley?

(7) Have stagnation or accelerated changes prevailed in the last few decades?

(8) Does the governance rely on external or internal mechanisms?

(9) What about integration and disintegration tendencies, which one will prevail?

Frederick Starr argues that those who is able to answer these questions will arrive at a better understanding of the Ferghana Valley and Central Asia as a whole. But what conclusions have the American expert and his international team drawn? Their findings offer little consolation: it is well known that the Valley faces numerous social, economic, and ecological problems; most impor-

tantly, the Valley is divided among three countries, rapidly losing its historical homogeneity under strong disintegration forces. Soviet power (which created the administrative borders in the Valley in the first place) is not entirely to blame for this. Together with their independence, the new states acquired an enthusiasm for nation-building that inevitably affected the Valley's cultural-historical homogeneity.

Frederick Starr is well-known for his unorthodox approaches. He came forward with a proposal to set up a collective international body, he calls the Coordinating Council of the Ferghana Valley, in order to pool the efforts of all the Central Asian countries.

A short survey with the eloquent title of *Central Asia: Decay and Decline* [6] has been written by the International Crisis Group, which made a thorough analysis of detailed statistics relating to health protection, education, energy production, and transport in Central Asia. The researchers pointed out that in all the Central Asian countries (with the exception of Kazakhstan), society and economies are in bad shape; in each of them, they found, certain infrastructures are in grave decline. In Kyrgyzstan and Tajikistan, for example, civilian infrastructure has deteriorated beyond repair (though energy production is still surviving). In Uzbekistan and Turkmenistan, health protection and education are decaying (energy production has already undergone a slump).

The authors placed Kazakhstan in a league of its own, but not in a complimentary way: the gap between health protection and education for the elite and for ordinary people is rapidly widening (the latter receive next to nothing despite the huge sums allocated from the budget). In other words, world-class schools and hospitals stand side by side with institutions that are no better than in Kazakhstan's neighboring countries to the south. The authors nevertheless admit that, unlike its neighbors, Kazakhstan has moved forward to a certain extent and preserved its secular order.

Another book entitled *Central Asia's Crisis of Governance* [7] was published by the Asia Society in Washington. Its author Philip Shishkin, a former award-winning staff reporter at the *Wall Street Journal*, looks at the region from two angles: from within and through their development in the

presence of other geopolitical players (Russia, China, the USA, and the EU). The author gives succinct definitions of each of the Central Asian states, describing Kazakhstan as a country of electoral authoritarianism; Kyrgyzstan as the land of perpetual revolution; Tajikistan as a failing state; Turkmenistan as a desert kingdom fueled by gas; and, finally, Uzbekistan as a police state of strategic significance.

The book suggests (though the author deliberately avoids unambiguous statements) that the region suffers from a crisis of governance at home (state institutions and systems of governance are eroded) and at the geopolitical level (which is much more interesting). But it seems that the region will not succumb to “external governance”; “the US-led war in Afghanistan has been a boon to Central Asia’s authoritarian regimes... But the United States is likely to disengage from the region as it winds down the Afghan campaign, with China and Russia poised to increase their influence in Central Asia” [7, 35]. This will inevitably undermine the EU’s position in the region and play down the geopolitical impact of the West. In theory, Russia and China might profit, but this is in no way certain. Russia is rapidly losing ground to China which, however, is not prepared to employ colonial or totalitarian methods to keep the region under control.

This means, writes Philip Shishkin, that in near future Central Asia will be spared intensive geopolitical rivalry (according to many experts on Central Asia, however, it has become more intense); instead the region will witness receding and, therefore, inadequate external pressure. This is a paradox that contradicts the generally accepted notion of Central Asia’s geopolitical importance. The paradox suggests that in near future the Central Asian countries will suffer from a crisis of domestic political governance (that is, a crisis of their state institutions), more intense rivalry between the elites, clans, and regions, and, in some of the countries at least, the struggle for political leadership, hereditary power, etc.

Political Models in the Central Asian Countries

Professor Eric McGlinchey of George Mason University gave his book the pretentious title of *Chaos, Violence, Dynasty: Politics and Islam in*

Central Asia [8]. What is found between the two covers does not fully correspond to the title: the author concentrates on the problems of authoritarian rule, taking Central Asia as an example.

The first chapter deals with authoritarianism in the broad international context, with digressions into various authoritarian models and affecting geopolitics, the economy, religion, etc. Chapter 2 “The Soviet Origins of Post-Soviet Autocratic Variation” contains nothing new: the subject has been extensively researched by political scientists. Chapters 3, 4 and 5 deal with the three models of Central Asian regime as the author sees them: he designates the Kyrgyz model as “chaotic,” the Uzbek as “violent,” and the Kazakh as “dynastic” (in terms of the continuity of power). McGlinchey puts political instability in Kyrgyzstan (notably the events of the early 1990s and those in 2005 and 2010) at one pole and Uzbekistan’s excessive stability at the other. Stability in Uzbekistan, writes the author, is rooted in the repression of the 1990s and suppression of the Andijan riot in 2005. Kazakhstan, where the dynastic tradition of state power may ultimately undermine the regime, is found somewhere between the two extremes.

The author believes that three key factors are responsible for the diversity of authoritarian models in Central Asia: the degree of Moscow’s involvement in local development; abundance or shortage of economic (natural) resources; and different levels of Islamic influence. He concludes that, on the whole, the regimes’ diversity and their stability/instability have been caused by several, rather than a single factor, i.e., the strong party and administrative machine inherited in Kazakhstan and Uzbekistan; excessive dependence on foreign aid (Kyrgyzstan); the unfolding vulnerability of the ruling class; shortage of economic resources, which leads to violence or decentralization; clan regionalism (Kyrgyzstan and Uzbekistan), etc. The author deems it necessary to point out that an abundance of natural resources (Kazakhstan) has allowed the regime to avoid the decentralization/violence dilemma.

McGlinchey also examines the problems associated with political instability and resource deficit: when coupled with the strong historical traditions of Islam-oriented societies they inevitably turn Islam into a factor of social and political gravitation.

This is not a breakthrough: since the early 1990s, Western political science has been aware of Islam's transformation into a political force. The book contains numerous diagrams and tables designed to demonstrate graphically the different levels of development in the three Central Asian republics.

In his relatively short book *Flirting with State Failure* [9], Johan Engvall offers a conceptual analysis of the causes behind the consistent failures to build an efficient state system in Kyrgyzstan. The author gives a positive assessment of the first years of Askar Akaev's presidency, but points out that the instruments used by the first president of Kyrgyzstan to carry out his reforms (the government and state institutions) proved inadequate. "He ruled through a heterogeneous government", writes the author, "unable to implement these ideas in real life, leading to chaos and minimal levels of governance" [9, 5].

"Starting in the second half of the 1990s, Akaev embarked on an increasingly authoritarian path". Johan Engvall claims that unfortunately "the president and his family increasingly approached the state and the economy as personal fiefdoms, which increased popular dissatisfaction with the incumbent leader. This culminated in the so-called Tulip Revolution that unseated Akaev" [9, 5-6]. The hopes for democracy proved in vain. President Bakiev and "the new ruling family created a full-scale kleptocracy" [9, 6] which eclipsed everything that had been done by the Akaev regime. Bakiev was deposed in 2010.

Johan Engvall concludes that "political power in Kyrgyzstan is a battle between personalities, not organized group interests. Elites compete for power not through formal institutional channels, but by means of competing informal patron-client pyramid networks" [9, 6]. The author points to three very important features of the political order in Kyrgyzstan: "A first striking component is the dominance of personalized influence games. In this system, success is dependent on proximity to the president and his family circle; a second pillar of political power is the redistribution of rents; finally, the state itself is organized as a marketplace" [9, 7]. Any political system organized in this way requires regular privatization of public property; the setting up of various funds, companies, etc. to redistribute resources and channel financial flows. A change

in regime starts a new round of repossession and redistribution.

The author obviously has doubts: "Against this background, is a fresh start likely in Kyrgyzstan, and could a parliamentary system serve as a vehicle of change? First of all, political change in Kyrgyzstan cannot be measured by changes in the formal framework of governance" [9, 7]. More than that, during the years of independence, the criminal community, previously barely organized, developed into several well-organized criminal syndicates which control state enterprises, agriculture, light industry, and drug trafficking ("of all the drugs originating in Afghanistan, experts estimate that about 15-20 percent is smuggled through Kyrgyzstan") [9, 47]. Naturally enough, this ensured the entry of criminal figures into official and political circles.

The author describes the republic as "Central Asia's unorganized island of democracy" [9, 18] and concludes by saying: "Thus, the critical question is whether the semi-parliamentary system can work out in practice and lead the political elite away from the past" [9, 101].

The recent book by Sébastien Peyrouse *Turkmenistan: Strategies of Power, Dilemmas of Development* [10] is a valuable addition to the body of writing on Central Asia. It is a sequel to his earlier book *Turkménistan. Un destin au carrefour des empires* [11] published in 2007. The two books have much in common, especially at the conceptual level. In his first book, the author presented his concept in the form of questions. Was the future nation the author of its own history? Can the advantageous geopolitical situation impart political and cultural importance to the nation? How can the great historical moments and great historical figures of the entire region be divided among its countries and how can they be fitted into their national treasure-troves? What place should be assigned to the Russian-Soviet heritage which, while being reviled, still survives? What role will Islam play? How will the division into clans and regional and national minorities affect the country's future? The author appears certain that the formation of the Turkmen nation, which was retarded by the radical social and political processes initiated and carried out by the Soviet regime, makes it hard, if not impossible, to talk of national identity.

In his recent book the author tries to answer these questions. The book consists of ten chapters divided into three parts. Part I describes geography, history, and nation-building, the contents being geared to the Western reader. Much attention is paid to the Russian and Soviet period. Peyrouse proceeds from the assumption that Turkmenistan is a state that can and should occupy a niche of its own in the 21st century because of its past and geographic location, which will also provoke great interest in it.

Part II “Post-Soviet Technologies of Power” covers aspects of the Niyazov regime. The first decade-and-a-half of Turkmenistan’s independence were shaped by the late president’s ambitious personality. He directly influenced political institutions and cultural life while the negative repercussions of his ambition have not yet been fully disclosed. This brings the reader to President Berdymukhammedov, who inherited power from Niyazov. Having posed the question in his previous book “Was there a thaw?”, Peyrouse concludes in this work that the early stages of Berdymukhammedov’s presidency constituted an “illusion of a Khrushchevian thaw”.

Part III “Development Challenges and Strategies” deals with the economy and foreign policy dilemmas. The author tries to explain the paradoxes and U-turns in Turkmen policies: the very specific Russia-Ukraine-Turkmenistan gas triangle; restraining Moscow through Tehran; the great interest in the Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI); and the recent reorientation towards China and the EU. Peyrouse does not bypass the most sensitive issues, i.e. Turkmenistan as a conduit for drugs trafficked from Afghanistan and “the growing Sinophilia of Turkmen foreign policy” [10, 207].

The French scholar writes that Turkmenistan’s foreign policy is mainly determined by its hydrocarbon resources and by the position its leaders are seeking in the international arena. As an enclave, he says, the country should master the art of good relations with its neighbors, irrespective of their political regimes. The country has already achieved something approaching integration with Iran, its closest neighbor, and with Turkey and China. Relations with Russia remain fairly complex: the regime is still nursing a grudge against the “big brother”

that impinged upon its independence while letting Moscow control its gas exports.

The regime change in 2006 gave Ashgabat greater leeway: while fulfilling its old obligations and easing its isolation, the country found a place in regional integration structures and resumed contact with the West. The author writes that the country has essentially restored its relations with the USA and EU, two great powers, as well as with international and post-Soviet structures. What is more, despite the “democratization” agenda, Turkmenistan has preserved its economic links with its large regional neighbors.

Sébastien Peyrouse has also written: “Today’s energy Great Game has promoted a revival of interest in Turkmenistan. It puts the four major international actors—the United States, the European Union, China and Russia—in competition with one another as well as with the new 21st century regional powers: India, Iran and Turkey”; in his opinion, “Central Asia is a strategic region where the powers involved test out their strength and their alliances” [10, 219]. “Let us hope, writes the author, that being involved in this far from simple game Turkmenistan will seize the chance to secure its strategic goals, something which is highly important for its long-suffering people.”

Claude Salhani, American observer and journalist, a member of the International Institute of Strategic Studies, called his book *Islam without a Veil: Kazakhstan’s Path of Moderation* [12], which was the result of his six-month trip to Kazakhstan in 2010 as a *Washington Post* correspondent. Written in a publicist style, the book reads like a piece of journalism. The author has chosen the Islamic context to discuss the country’s recent history: Islam and modernization; religion and democracy; the Salafi impact on Kazakh society; and possible cultural and civil as well as political and economic convergence between the Middle East and Central Asia.

Significantly, it was in 2011 that the author asked himself whether Kazakh society would be confronted with Islamic terrorism any time soon. Claude Salhani pays particular attention to the security issues relating not only to the threat of terror, but also to Kazakhstan’s OSCE chairmanship. He places the geopolitical issues in the same context: the impact of Afghan developments and

spread of radical Islam. The author fits his view of specific reforms in Kazakhstan into a succinct formula, that is, “the economy first” [12, 107], meaning that economic reforms should be completed before political reforms are launched. On the whole, it seems that the author has identified a special Kazakh blueprint both for the economy and in politics: one of moderation, gradual reform, and tolerance. There can be no arguing with this.

The new book, *Kazakhstan: Surprises and Stereotypes. After 20 Years of Independence*, by British author Jonathan Aitken [13], is a logical sequel to his previous work, *Nazarbayev and the Making of Kazakhstan* [14]. It would appear that the information, ideas, and impressions the author gained while in Kazakhstan proved too copious to fit into one book. Let us look inside both of them. In 2009, the author set himself the task of introducing the foreign reader (mainly in the West) to the architect of the most successful of the Central Asian states. The book is based on the author’s long talks with Nursultan Nazarbayev, in which the president of Kazakhstan shared his reminiscences and ideas. These confidential talks and the author’s unlimited access to the state archives make the book a treasure-trove of useful and, most importantly, hitherto unknown information. The author not only describes his hero’s long road to the very summit of power, but also reveals the circumstances and personal qualities that brought him to power and made him father of the nation and “the builder of modern Kazakhstan” [13, 15].

In *Kazakhstan: Surprises and Stereotypes. After 20 Years of Independence*, Jonathan Aitken develops the subjects and ideas of his previous book while moving away from the personality of the country’s leader. Contemporary Kazakhstan, which has covered a 20-year-long road of independence, is the central character. Fully aware that the West and the rest of the world know very little about Kazakhstan, the author writes: “Nevertheless there is a growing understanding that a new powerhouse is coming of age on the Steppes. At this strategic crossroads where Chinese, Russians, Central Asians and Western civilizations converge, Kazakhstan has arrived as a stable and significant nation state” [13, 2].

Aitken believes that the mechanism of state governance and the political processes under way

in Kazakhstan warrant closer scrutiny; the Western media and political scientists, meanwhile, should abandon their cherished stereotypes and clichés about dictatorship, police state, and harsh authoritarian regime. He writes that even though it is endowed with bounteous natural riches, the country’s main resource is its people with their talents, traditions, ambitions, and strong historical memory. The author argues that anyone wishing to understand the country’s past and present should keep in mind that “three themes are surprisingly important: Suffering, Survival and Success” [13, 3]. He is convinced that knowledge of the disasters that befell the republic in the 20th century puts its future in the 21st century into bolder relief.

Jonathan Aitken looks at the emergence of the young and ambitious middle class as a guarantee of the country’s stability and economic growth; at the same time, he does not remain silent about the numerous problems he identifies, among these the Soviet legacy, one-party system (the book was written before the December 2011 elections), high level of corruption, and inadequacy of the judicial system, as well as limited media freedom. Full-scale democracy is still beyond the horizon, yet real progress in most spheres is palpable.

The author is puzzled by the fact that whereas in the West the public is mainly cynical and tends to mistrust the government and political leaders, the opposite is true for Kazakhstan. He describes the rejection of the referendum on extending the president’s term in office for another six years scheduled for the spring of 2011 as the main political intrigue and “a victory for New Kazakhstan over Old Kazakhstan” [13, 15]. The rejection of the referendum was a defeat of the old elite clinging to the status quo that guaranteed its continued existence within the system and under the presidential umbrella. The decision pushed the social groups the author describes as “new Kazakhstan” (the liberal intelligentsia, progressive-minded businesspeople, and officials, students, youth, and ordinary people in general) onto the president’s side.

On the whole, the author covers a wide range of problems relating to the country’s domestic and foreign policies. The author is obviously a friend of Kazakhstan who wishes it well despite the pages of objective, just and, therefore, constructive criticism. As such, it does not irritate but suggests that

the shortcomings should be removed and problems addressed.

The Russian-German collective monograph *Politicheskiy protsess v Tsentralnoy Asii* (Political Process in Central Asia) [15], the third in a series [16], is a fine addition to Central Asian historiography; it was published in 2011 as part of a joint project implemented by the German Rosa Luxemburg Foundation and the Institute of Oriental Studies of the Russian Academy of Sciences. The international group of authors analyzes the political processes in the Central Asian countries, the specifics of their social and economic development, and the dramatic changes obvious in all spheres of public and social life.

In their introductory article, Arne C. Seifert and Irina Zvyagelskaya claim that authoritarian systems have demonstrated the sustainability in all the Central Asian states in a fairly specific form of clan-bureaucratic capitalism that serves tiny groups of the select few, being a very complex intertwining of the traditions of modernity and the stronger religious impact on society. The authors point out that the political process under way in the Central Asian states reproduces a non-Western model (or elements thereof) determined, on the whole, by personal social relations, while power, authority, and influence mainly depend on social status. This explains why a political struggle is being waged around sources of influence rather than political alternatives.

The authors go on to say that conservative political culture is responsible for the fairly specific principles governing the functioning of political institutions. The multiparty system that replaced the Soviet one-party system as it faded away in the newly independent states was exposed to the impact of strong social ties. Political parties are not based on ideologies; they are based on regional, clan, and tribal interests. Most of the parties and movements are not national, they are fighting for higher statuses for their tribespeople.

The authors touch upon a very important issue: there are two versions of the region's configuration which presuppose alternative ideas of its history, cultural, and political interests. One of the alternatives is called Central Eurasia, the other Greater Central Asia. The new names are explained by the desire to move away from the old "Central Asia" (*Sredniaia*

Azia in Russian) branded with Russian and Soviet geopolitical and geo-economic definitions.

In the post-Soviet period, Soviet heritage is gradually fading away to be replaced either by new geopolitical configurations or by older and much more fundamental cultural, linguistic, and religious relations. Those who favor the new names for the old region believe that Central Asia should be enlarged to include other countries of the same region or some areas of them and be treated as a geopolitical whole inherited from the past. The expert community has accepted this argument; the new names are freely used for all sorts of communities, undertakings, and departments.

The authors, in turn, point out that the new names and new boundaries of their cultural-geographic construct (for them the difference between Central Eurasia and Greater Central Asia is of secondary, stylistic importance) are too vague. There is a more or less concerted opinion that Afghanistan should be included in the new region together with the Central Asian states; the rest is left to personal preference: some authors see Mongolia, Xinjiang, the eastern parts of Iran, and northwestern parts of Pakistan within the boundaries of the new region; others look even further to Western Siberia, the Southern Urals, the Volga Area, the Southern Caucasus, and the Crimea.

This suggests that typologically the methods employed to describe Central Asia are too varied to produce a single idea of the region (which is hardly possible anyway); this explains the present diversity of opinions and approaches. Much depends on the point of view of any specific expert, the interests they defend, and the methodological instruments they employ.

Arne C. Seifert, who contributed an article called "Political Islam in the Political Process in Central Asia," does not look at Islam as a conflict-prone factor. There is no reason to believe, he writes, that Islamists might seize power, though he warns that the situation might change if believers, the clergy, and those who represent Islam in politics are confronted with suppression. Violence is known to have bred conflict and religious wars in the past. So far, no such situations have emerged: the regional and local elites rely on Islam as a handy instrument used when interests need to be protected or when conflict potential must be quashed.

Professor Seifert has formulated a concept of horizontal evolution of Islamization and politicization of the religious milieu and has identified its three factors:

- social problems;
 - deeper religiosity (Islam “nationalizes itself”);
- and
- politicization (political Islam strengthens its position as far as, and including, demands to set up an Islamic state).

In fact, wider and deeper religious feelings as a response to poverty and social stagnation have been present in all countries at all times. In Central Asia, however, people are exposed to two of these three factors: unresolved social problems and, therefore, an explosive social situation and rapidly “self-nationalizing” Islam. Together they are a mighty force adding dynamism to all sociopolitical processes, particularly in the religious sphere. In countries where there are practically no socially oriented left-wing movements, parties, or trade unions to mold general dissatisfaction into proposed alternatives and the struggle for social justice, the situation becomes even more dangerous.

Seifert says that the time has come to define the notion of political Islam: the answer to the question of where the watershed lies between the aims and intentions of any specific party, politicians, and activists (who practice political Islam) is found in the context of their attitude to Muslims’ religious feelings, on the one hand, and their possible employment for political purposes, on the other.

Seifert is convinced that Europe may be sufficiently determined to establish relations with Central Asian political Islam based on trust and confidence if and when the West pulls its military forces out of Afghanistan (he has written this repeatedly elsewhere). In such circumstances, the OSCE would be assigned the special role of moderator between secular power and political Islam so that their latent conflict does not slide into antagonism to be exploited by external forces in their own interests. He deems it necessary to stress that Europe should finally accept the Islamic political movements in the Asian part of the OSCE as a strategic constant rather than a variable.

He argues that today European politicians and the ruling regime in Central Asia have so far failed to grasp the key idea that democratic treatment of

the “Islamic factor” is much more important and valuable than merely a constitutional element in the young nation states. This interferes with the process of improving relations between Europe and Central Asian political Islam and leaves many basic problems pending. We should admit that peaceful coexistence between secularism and Islam in Central Asia is a vitally important aspect of stabilization inside the Central Asian countries and of the relations between them and secular Europe.

A Muslim majority does not mean that the state should become an Islamic state, yet Europe should learn that the secular elites cannot guarantee the secular nature of their states *ad infinitum*. Hence the conclusion that as long as the question of the sociopolitical orientation of the Central Asian countries remains unresolved (that is, whether they remain secular or become Islamic states), the Islamic factor will continue to occupy a central position in the political struggle in the region. Its outcome will largely depend on whether the relations between secular power and Islam can be mutually accommodating to the extent that both will learn to view the state as their common social and political homeland.

In his conclusion, Seifert sharply criticizes the capitalist system and its practical implementation in Central Asia; he suspects Western elites of conspiring to wipe out the socialist alternative to liberal capitalism and states that the West has successfully applied its strategy of transformation to uproot the political and economic foundations of Soviet-type society.

At the same time, he writes, the West has so far failed to set up political systems in its own image and likeness, while regional developments show that some of the states have already left the transit period behind: they have acquired fully consolidated political regimes of a “new type” which have very little in common with what the West sees as transitory. Arne C. Seifert has summed up the region’s international and geopolitical prospects by claiming that the rivalry between the main geopolitical players (Russia, the USA, and China) affects the political processes unfolding in the region. He is absolutely right. Indeed, the economic, military, and political capabilities of the region’s states will hardly allow them to copy the tactics employed by more independent geopolitical players. This means that they

should not side with any of the players involved, but should remain equidistant from all of them and avoid unambiguous support of one of the sides.

This fundamental work is not free of shortcomings and contradictions. The chapters dealing with individual republics should be treated as independent studies. There is, however, a conceptual element clearly discernible in the three pieces contributed by Arne C. Seifert. Very much like his Western colleagues, Seifert proceeds from a well-established belief in the authoritarian nature of the local regimes; unlike others, however, he tries to analyze the reasons for this and look beyond the authoritarian façade to find possibilities and alternatives conducive to sustainable and effective development. As distinct from Western experts (mainly Anglo-Saxon) who criticize the Central Asian realities from the right, he criticizes them from the left (which is quite logical for someone who represents the Rosa Luxemburg Foundation).

Professor Irina Zvyagelskaya (Institute of Oriental Studies, Russian Academy of Sciences), who, together with Arne C. Seifert, contributed to the introduction to the monograph discussed above, authored one of the chapters in *Vneshnepoliticheskiy protsess v stranakh Vostoka* (The Foreign Policy Process in the East) [17]. She places foreign policy in Central Asian states in the context of the region's development over the last decade and the role of external players in this development. She claims that local regimes have acquired many shared characteristics (the closed nature of decision-making being one of them) and that their political cultures share certain specific features (a combination of contemporary and traditional elements such as the role of social status, solidarity groups, etc.). She also mentions that what is going on outside the region in many ways influences the situation in the region, as well as the foreign policy of the Central Asian states.

The reader is invited to bear in mind that what the West is planning and has programmed for the Arab East (with the pragmatic aim of gaining access to its resources), viz. replacement of the elderly leaders, reorientation of foreign policy, structural and economic changes, etc., will happen sooner or later in Central Asia: forewarned is forearmed, concludes the author. Indeed, some of the Central Asian leaders have remained in power

as long as Mubarak, Ben Ali, Saleh, and Qaddafi, who set up authoritarian imitations of democratic regimes very similar to those we see in Kazakhstan, Uzbekistan, or Tajikistan. In other words, these post-Soviet regimes have grown old and worn out very much like their architects. Back in 1991, these regimes could stir up half-hearted zeal, but in stormy 2011 they relied on fear, stagnation, apathy, and post-Soviet conformism.

The author concludes that a peaceful and well-organized transfer to democracy in some of the Central Asian republics is complicated by the fact that none of them has yet succeeded in accomplishing such a transfer.

The monograph *Aziatskie energeticheskie stsenarii* (Asian Energy Scenarios) [18], an IMEMO publication, looks at the problems of energy production and the role of Central Asia in the world's export of energy resources. The authors point out that Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan have found their niches in the international division of labor as fuel exporters thanks to their oil, gas, and uranium resources. So far, they have failed to put money into the modernization of their energy and transportation sectors, which means that very soon their export potential will falter under the pressure of high energy consumption.

Tsentrálnaia Azia segodnia: vyzovy i ugrozy (Central Asia Today: Challenges and Threats) [19], published as a series of monographs by the Kazakhstan Institute of Strategic Studies (KazISS, Almaty), is a fundamental work that merits special mention. This is the most profound discussion of the region and its problems offered by Central Asian authors. I invite critics from other regions to form their own opinion of it.

* * *

We have surveyed a great range of opinions, concepts, and theories related to the present and future of the Central Asian countries. There is more or less unanimous agreement that the region's relatively comfortable existence in the system of international relations, which coincided with the end of George W. Bush's presidency and Barack Obama's first term as US president, is coming to an end. As the West has successfully destabilized Iraq, Afghanistan, and the Arab East, it will turn its attention to Iran and Pakistan.

In this context, neither the USA nor Russia needs a neutral Central Asia. The course toward Eurasian Union Vladimir Putin outlined in September 2011 means that Russia has finally parted with its inconsistent foreign policy and that the era of “multivectoral” foreign policy in many Central Asian states is increasingly irrelevant. This is what many of the works quoted above have either stated plainly or implied in less direct terms.

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Politological Approach Towards Notion of Sovereignty: Traditions and Innovations

YURI BULUKTAYEV

The principle of popular sovereignty is a key to understanding the gist of a democratic political regime. This is because the main idea of this principle involves recognizing the people as the source of supreme political power within a society and acknowledging their political independence from any individuals or groups.

The sovereign power of the people builds on the following principles:

- constituent and constitutional power in a state belongs to the people;
- people elect their representatives and are entitled to re-elect them on a periodic basis;
- people have a right to participate in law-making and enactment of laws through public initiatives and referendums; and
- people acknowledge its government and the values the government is based on and this constitutes the core of legitimacy.

Whereas some authors define sovereignty as “a supreme power to which no other power can confront” others define it as “a system characteristic which describes (co-)existence of states and their related contexts under the conditions of modernization (modern development), and which depends on powerful leaders’ abilities to recognize one another and pursue their authority, and empowering respective authorities and consequent (reflexive) delegation of powers” [1].

The formula “if a state is sovereign, it is autonomous” can be used to describe the first definition, which demonstrates the state-centric approach. The second definition complies largely with the

realities of today’s globalization process, which promotes the gradual establishment of a global sovereignty system.

It should be noted that the state-centric approach in international relations became a target for criticism as early as the 1970s. The augmenting globalization contributed to reconceptualization of the international system. In particular, the assertion that the state is the only significant actor on the international scene was called into question.

Globalization caused states to coexist under conditions where states, transnational actors and international organizations became increasingly interdependent, thus raising the risk of states’ sovereignty dissolving. The notion of sovereignty is undergoing significant transformation. Therefore, Mikhail Ilyin points out four types of sovereignty:

- 1) domestic sovereignty through the fact of authority (sovereignty of the governor);
- 2) domestic sovereignty through recognition (sovereignty of the people);
- 3) external sovereignty through the fact of authority (sovereignty of the state); and
- 4) external sovereignty through recognition (sovereignty of the nation) [2].

Each of four aspects of sovereignty (governor, people, state and nation) has its own right to exist and sets up the boundaries for conceptual research. For example, the domestic sovereignty through recognition (sovereignty of the people) can be interpreted, on one hand, as a society’s need for sovereignty, and, on the other hand, as an opportunity to define civil society as a mixture of non-violent

methods used by people to exercise their collective sovereignty with respect to the state.

Due to global integration, the conceptions of functional, separated and parliamentary state sovereignty emerge. Therefore, “the rigid system of territorial states, where borders function as a marker highlighting sovereignties’ areas in Eastern Europe, gradually transforms into a more flexible and multilayer system, which does not have hierarchic traits, but rather has the traits of a network. Therefore, the evolution of the European Union itself is a significant challenge to both external and domestic aspects of territorial state sovereignty” [3].

However, despite the numerous interpretations of “sovereignty” appearing in the political lexicon, the majority of experts agree that the key function of sovereignty, i.e. an organizing principle within the system of international relations, remains unchanged. Of course, sovereignty is particularly important for the post-Soviet states. “The major political challenge on the way towards posttotalitarianism in the former Soviet Union area is acquisition of new sovereignty ground rules by bureaucratic ruling elites after they, in their own interests, focused on the struggle for resources, liquidated centralized communistic apparatus and, under anticommunist slogans, transformed administrative relations within the common system into intergovernmental relations. The future of these regimes and the people under them, as well as the future of ‘civilized world community’ these regimes claim to be a part of, depend on new sovereignty patterns that were formed in the former Soviet Union area. The choice is between the paradigms of ‘sovereignty through the fact’ and ‘sovereignty through recognition’ [4].

For Kazakhstan, adopting the Declaration *On State Sovereignty of the Kazakh Soviet Socialist Republic* started a new page in its political and legal history. The declaration builds on a number of fundamental democratic principles: the people’s (the nation’s) inalienable rights, i.e. right to identity, right to choose a form of statehood, right to its territory, culture, traditions and native language; separation of powers, protecting rights and freedoms of citizens, promoting people’s friendship and a variety of forms of ownership. According to Nursultan Nazarbayev, “Kazakhstan’s sovereignty has complex ethnopolitical and legal background. It represents a synthesis of Kazakhs’ national

sovereignty (as the vanguard) which links them to their national origin and traditions, and common sovereignty of the Kazakhstan people as a common ethnopolitical community” [5].

It goes without saying that under the influence and in the course of democratic reforms in the mid- and late 1980s, which exerted influence upon all aspects of social life both in the USSR and Kazakhstan, the majority of citizens were prepared for the idea of adopting a respective political and legal document on state sovereignty. “No valid country can sustain itself without sovereignty”, as deputy of the Supreme Council of the Kazakh Soviet Socialist Republic (SSR) Sultan Sartayev stated in his speech on October 16, 1990. “This was established by our historians, our experts in international relations and, finally, by lawyers. From this point of view, it should be noted that the declarations on national sovereignty in particular—which have been adopted by other Union’s republics and which we are now going to accept—are to define national, political and public characteristics of our state, our nation” [6].

It must be noted that, despite the negative reaction from the Soviet Union government regarding this declaration, the approval of this important political document in Kazakhstan’s history and its consequent recognition was relatively smooth, without any political conflicts and clashes. The Soviet Union government bodies perceived the declaration that proclaimed state sovereignty of the Kazakh SSR and which was accepted much later than those of other Soviet Union republics as an inevitable process, which they could not stop. On October 25, 1990, the Kazakh SSR Supreme Council approved the Declaration *on State Sovereignty of the Kazakh SSR*, with all issues and concerns, which arose during discussions on the draft, taken into consideration.

The first declaration in Kazakhstan’s history—*On State Sovereignty of the Kazakh SSR*—proclaimed that “the Kazakh SSR shall take measures to defend, protect and consolidate the national statehood” and that “the territory of the Kazakh SSR within its existing borders shall be indivisible and inviolable and shall not be used without Kazakhstan’s permission. Any political parties, non-governmental organizations, other unions and groupings or individuals performing violent

actions against the constitutional system of the Kazakh SSR, calling for breaking its territorial integrity and stirring up ethnic hatred shall be prosecuted”.

The declaration ensured the supremacy of Kazakhstan's Constitution and laws to be executed by all governmental bodies, enterprises, organizations, citizens in Kazakhstan. Another important provision read that Kazakhstan had a right to suspend laws or other legislative instruments of any former Soviet Union republic within its territory if this Soviet Union republic had violated sovereign rights and the Constitution of Kazakhstan. Thus, taking into consideration the circumstances as of the time of declaration approval, this provision was a significant breakthrough towards establishing constitutionalism of the nation [7].

The Declaration *On State Sovereignty of the Kazakh SSR* contained the following three provisions that were fundamental for the constitutional system in Kazakhstan:

- on Kazakhstan's exclusive state ownership of land and “its subsoil, waters, air space, flora and fauna, other natural resources, cultural objects and historic values of the nation,” and economic and technical potential, i.e. “all national wealth available within its territory” that forms the basis of its sovereignty;

- on Kazakhstan's right to have its own internal troops, state security and internal affairs bodies that report to and are controlled by the Supreme Council and the President of Kazakhstan; and

- on the right of the Kazakh SSR to be an independent international actor, take advantage of conducting its foreign policy and consider the issues related to its foreign economic activities without any interference from beyond.

The provision regarding ethnic groups' right to identity was among the most important principles of the *Declaration On State Sovereignty of the Kazakh SSR*. The following words open the declaration: “The Supreme Council of the Kazakh SSR, ... having acknowledged ... ethnic groups' right to identity, ... proclaims state sovereignty of the Kazakh SSR and approves this Declaration” [8]. This fundamental principle was later restated in the *Constitutional Law of the Republic of Kazakhstan On State Independence of the Republic of*

Kazakhstan that reads as follows: “The Supreme Council of the Republic of Kazakhstan, ... having acknowledged ... Kazakh nation's right to identity ... solemnly proclaims the state independence of the Republic of Kazakhstan”.

The immense significance of the *Declaration On State Sovereignty of the Kazakh SSR* for Kazakhstan's political and legislative history is defined by the fact that the Supreme Council of the Kazakh SSR, “expressing the will of the Kazakhstan people,” had, for the first time and at the highest level, proclaimed before the entire world community that “the government of the Kazakh SSR is supreme, independent and absolute within the Republic,” that “the Kazakh SSR shall, without outside help, resolve all issues related to building its political, economic, social and cultural structures, developing the administrative division, establishing the structure and competencies of governmental bodies and administration, as well as deciding upon the state symbols of Kazakhstan.”

Thus, approval of the declaration on Kazakhstan's sovereignty was a turning point in the life of the people of Kazakhstan. The declaration defined the ultimate objective for the country and its political regime, i.e. creating decent and equal conditions of life for all citizens, and fostering friendship among the ethnic groups. This politico-legal document launched the process of shaping the legal framework for the genuine statehood and ensured the transition to a totally new level of exercisable rights and freedoms for its citizens.

As a legal act, the declaration opened the prospect of establishing direct contacts with the world. Kazakhstan, as a sovereign state, acquired the right to be an independent international actor, conduct its foreign policy to its advantage, exchange with diplomatic and consular missions, and participate in international organizations, including those of the UN and its institutions. The declaration, with its fundamental principles, formed the basis for national legislation and a new Constitution. Simultaneously, the declaration served as a prerequisite and starting point for establishing the institutional base of a new political regime. Following independence, this process was further enhanced.

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Dialogue of Religions and Cultures To Guarantee a Secure World

GERMAN KIM

There are three books that are helpful for the discussion of this topic: they are not a trilogy or a triad, but are highly relevant.

The first book, by René Rémond, a member of L'Académie française, is entitled *Histoire de Dieu* [1]. He claims that religion has been a great driving force in society and remains an important component in understanding personalities and peoples' fate. History has shown religion's capacity to counteract the most bellicose efforts to root it out from peoples' souls. In fact, the opposite happened: faith triumphed over systems that rejected it.

Madeline Albright, the author of *The Mighty and the Almighty: Reflections on America, God, and World Affairs* [2], analyses the role religion plays in international politics. Based on her extensive experience in government, her moral convictions, her vision of America's role and international relations in general, she aims to prove that religion and politics are inseparable. Their robust and rational unity, she says, may successfully serve justice and lasting peace in many regions of the planet.

In the third book, *The Clash of Civilizations?* [3], Samuel Huntington claims that the only way of avoiding or reducing it is the establishment of multipolar order through the dialogue of civilizations.

The dialogue of civilizations is based on a "dialogue of cultures" and "dialogue of religions" that, in essence, are dialogues between people who belong to different cultures and civilizations. Dialogue is engaged in not by cultures, but by people.

Specifically, people enter into dialogue as products of their own culture and being influenced by other cultures. They perceive other cultures as a benefit or as a threat. That is why difference between cultures and civilizations may lead not only to constructive dialogue but to aggressive confrontation.

The idea of the dialogue of cultures gained popularity in the second half of the 20th century. One of its leading advocates, Mikhail Bakhtin, said that "Dialogue is a root and foundation for all definitions of human being communicating through dialogue. When dialogue ends, everything ends" [4].

Religion's role in modern society and its link with politics have become popular amidst academic research, current affairs and journalism. Less attention is paid to the dialogue of religions and cultures as a foundation for a secure world. However, religious organizations, clergy and believers are capable of making a positive contribution to the peacemaking process and intercultural relations. Religion is an integral component of culture and is a custodian of the cultural heritage of peoples and civilizations.

Civilizational discourse is becoming increasingly topical in the analysis of international relations because of the paradox that it is not a clash of economic and political interests that escalates conflicts and tension in the modern world but the dislike of ethnic, religious and cultural differences.

Until recently, dialogue between peoples mostly took on a philosophical form. "Dialogue" emerged as a political science term only relatively recently but it has quickly and firmly entered modern vocabulary.

Modern political science studies possible scenarios resulting from a shift in the main axis

of civilizational confrontation from West-East to North-South. The global polarization between a "rich North" and a "poor South" is not hostile and antagonistic. Rather the most acute clashes of cultures are taking place along the West-East axis. The causes of conflict have shifted from their economic and geopolitical origins to the more complex and "sensitive" spheres of culture and religion, and their resolution is possible via a more humane word.

Dialogue as a Universal Mode of Intercultural Communication

Dialogue is not a set of monologues but a mode of communication in which participants exchange information and aim to understand one another. Dialogue is complicated when the participants belong to different culture, ethnicity, religion and so on. At the same time, dialogue is not a rejection of one's own position but part of unstinting efforts to avoid the misunderstandings that commonly result in enmity, conflict and wars.

Dialogue as a universal mode of intercultural communication should cover every stratum and sphere of human existence. The most significant dialogue today is the dialogue covering spiritual, ethnic and moral values. Such dialogue aims to achieve mutual understanding of different religious, ideological and cultural values. The most important condition for such dialogue should be a desire not just to understand but also seek grounds for reconciliation. This is impossible without deep respect for the other side, considerate treatment of the characteristics and uniqueness of the other point of view and spiritual legacy of different cultures and religions.

Only in this way can such dialogue help to eliminate interreligious contradictions and facilitate common efforts to overcome global threats, combat religious-political extremism and international terrorism and make it possible to nurture future generations.

For the dialogue to be effective, each participant should adhere to certain shared principles which, were they to be ignored, would defeat their efforts.

The foremost of these principles is tolerance meaning the tolerant attitude of followers of one religion to adherents of another. Each person has the right to follow any religion but also assumes the obligation to acknowledge the same right

for others. Tolerance in relations among various religious communities is necessary to ensure a productive dialogue between religions.

The *principle of equality* of participants implies that any attempt to place any participant in an advantageous position is an obstacle to the course of dialogue.

Another important principle of interreligious dialogue is the openness of its participants. Openness does not necessarily involve participants abandoning their beliefs or making concessions to others, but it helps the participants to better understand one another's views and encourages them to identify shared interests and to draft concerted measures to pursue them.

Constructive approach, i.e., the objective to achieve positive results, is another vital principle of interreligious dialogue. Dialogue participants may be unwilling to adopt mutually acceptable decisions based on consensus or compromise. Compromise is possible and indeed necessary in issues which relate to everyday life, socio-political world order and cultural diversity.

In interreligious dialogue more than in any other type of dialogue there is a need for *non-axiological debate*; as soon as the discussion concerns the advantages or shortcomings of one religious teaching over another, the dialogue ends.

Interreligious dialogue is, therefore, primarily a dialogue between representatives of different religions. To be precise, it is no longer a dialogue but a polylogue which is aimed at finding solutions to common social and religious problems such as terrorism and religious extremism, environmental, cultural and moral problems and globalization. Interreligious dialogue aims to overcome confrontation, establish tolerant relations among religious communities and ensure peaceful coexistence of religions and religious groups.

The year 2008 was declared the European Year of Intercultural Dialogue. The annual conference of the European Council of Religious Leaders—Religions for Peace adopted the Berlin Declaration on Interreligious Dialogue which specified thirteen basic provisions [5]:

1. *Religion permeates Europe*. Christianity, Islam and Judaism are part of European history.
2. *Interreligious dialogue emphasizes both our similarities and our differences*. In interreligious

dialogue we acknowledge that human beings of all faiths share certain experiences, needs and longings, but we are different from each other in many respects and will remain so.

3. *Interreligious dialogue should promote respect for human rights.* Interreligious dialogue should respect the shared values found within all great religious traditions and embodied within the Universal Declaration of Human Rights.

4. *The invitation to dialogue is open.* While the invitation is open, everyone must abide by the agreed rules of a particular dialogue situation.

5. *Interreligious dialogue is a mode of relating to other faiths and has a transforming potential.* Dialogue on issues of faith and identity is not negotiation, not debate, not a discussion but existential contact with each other.

6. *Interreligious dialogue affirms the integrity of religious beliefs.* All who engage in interreligious dialogue should do so with full integrity in their own religious tradition and without compromise to what they hold dear.

7. *Interreligious dialogue addresses asymmetric power relationships with honesty.* Asymmetric power relationships between different religious groups should not be ignored or abused.

8. *Interreligious dialogue furthers stakeholder-ship and participation in society.* Interreligious dialogue should address a wide spectrum of issues of a global nature, but when religions diverge in opinion, they should discuss these matters with openness and courage.

9. *Interreligious dialogue leads to common action.* A full understanding of interreligious dialogue includes common action—*diapraxis*.

10. *Structures for interreligious cooperation are assets in times of crisis.* Trustful structures for interreligious dialogue are a tremendous strength when relationships between communities deteriorate.

11. *Knowledge and confidence in a tradition further interreligious understanding.* Open and trustful interreligious dialogue is furthered by a secure knowledge of one's own religious tradition as well as that of others.

12. *Religion has a natural place also in the public sphere.* Religion continues to have an important role to play in the public life of a Europe with many religions.

13. *Religious leaders, religious people and the authorities share responsibility for interreligious dialogue.*

Main Actors of Interreligious Dialogue

The main "interreligious actors" are intergovernmental organizations (the Organization of the Islamic Conference), world and regional religious organizations (the World Council of Churches, the Conference of European Churches and the World Buddhist Alliance), individual religious organizations (the Roman Catholic Church, the Constantinople and Moscow Patriarchies, the Russian Orthodox Church). With certain conventions religious actors of global politics may include political parties whose programs are based on religious principles.

An important role in ensuring accord, tolerance and peace is played by ecumenical organizations such as the European Council of Religious Leaders—Religions for Peace. This is a council which operates within the World Conference of Religions for Peace, the world's largest international religious organization with peacemaking objectives. Council participants assumed obligations to cooperate to prevent conflicts and support the peaceful coexistence of religious communities. The work of the European Council of Religious Leaders is based on mutual respect and acknowledgment of religious differences, i.e. based on tolerance of all to all.

Religious actors operate in a number of global political contexts.

Firstly, they influence the social attitudes that inform a country's foreign policy and shape political and economic interests.

Secondly, they take a direct part in religious and secular structures, political parties of a religious nature and in international activities.

Thirdly, they influence individuals who, themselves are the followers of a certain religion, take part in events of international significance and react to them, forcing foreign political leaders to take into account their world outlook and views.

International Christian organizations such as the World Council of Churches and the Conference of European Churches occupy a special place among religious actors in modern global politics.

The World Council of Churches, established in 1948, now unites 347 Christian churches, denomi-

nations and religious commonwealths, representing over 560 million Christians.

The Conference of European Churches is a regional European ecumenical organization, established in 1959, which now has 126 member churches.

In the Muslim world the largest grouping is the Organization of the Islamic Conference, created in 1969, which now has 57 member states.

The largest international Buddhist organizations are the World Fellowship of Buddhists (Bangkok, Thailand), the Asian Buddhist Conference for Peace (Ulan-Bator, Mongolia) and the World Buddhist Sangha Council.

In recent decades the dialogue of religions has grown in international significance. Mechanisms and institutions such as the Council for a Parliament of the World's Religions have been established to encourage regular dialogue and give it a more permanent status.

Informal collective communication at grassroots level initiated by individuals and groups engaged in interdenominational contact is increasing every year and has started influencing interreligious relations.

Interreligious dialogue, one way or another, involves actors such as global and regional organizations, national governments, research, educational and cultural establishments, various civil initiative groups, NGOs and, of course, the media. The success and efficacy of such dialogues depend on each actor and each of them could offer their dialogue platform to discuss topical issues of interdenominational interaction.

Dialogue as Means of Tolerance and Basis for Secure World

A good fruitful interreligious dialogue requires representatives of different denominations to recognize the need to combine faith and knowledge and to devise ways of encouraging tolerance.

In 1995, UNESCO adopted the *Declaration of Principles on Tolerance*, which recognized tolerance as a universal value and basic component of respect and understanding of cultural diversity of the world, religions, forms of self-expression and manifestations of human individuality. From this point of view tolerance is defined as "respect, acceptance and appreciation of the rich diversity of

our world's cultures, norms, faiths and rejection of domination and violence," and "readiness to accept others as they are and interact with them based on accord" [6].

In order to develop a successful dialogue of cultures and religions we need a reliable and firm platform which incorporates the following elements: lasting peace and political stability; respect for universal human rights, freedoms and international norms; culture of communication and behavior; efficient and stable policy in interethnic and interreligious relations; a favorable medium for political and legal regulation; rule of law and inviolable rights and freedoms of citizens; access to cultural and religious values; social justice and equality; reliable protection of national interests; respect for other cultures and religions.

In the past, wars broke out because of religion. Relations were often hostile and intolerant, but there were also periods of very peaceful coexistence. That is why the dialogue of religions, despite its complexity and problems, is seen as an acceptable model of relations among religions because it does not reject difference and aim to annihilate any individual religion or to create a new one. On the contrary, this model for mutual relations and contact deepens our knowledge and understanding of the essence of fundamental differences between religions because only through studying other religions is it possible to genuinely understand one's own. Interreligious dialogue could be productive in resolving various social problems.

Compromise in interreligious dialogue, which is mutual, has an important part to play. Compromise is possible and indeed necessary in addressing numerous issues but it is most important in the search for the philosophical foundations of everyday existence, recognition of socio-political attitudes and understanding of the nature of cultural diversity.

According to former UNESCO Director-General Koïchiro Matsuura, interreligious dialogue is a part of the "soft side of international relations" but nevertheless it has significant potential to shape the world we would like to leave for future generations.

Today, in a globalized world where people of various faiths and cultures are in constant contact with one another, the issue of relations between religion and politics, religion and violence are important as never before. In the last decades of the

20th century and at the beginning of this century terrorism, under the banner of religion, has become one of the main challenges to global security.

Most of recent terrorist attacks have, to a certain extent, had a religious pretext. In the media and mass conscience there is a stereotype that links “religious” terrorism almost exclusively to Islam, but actually there are plenty of extremist groups linked to other religions.

All world religions cherish the ideas of peace and love. World religions have existed for many centuries, whereas “religious” terrorism is a phenomenon of modern history.

In order to resolve problems relating to religious extremism and terrorism governments need not only to fight terrorism but also identify and eradicate its causes. Preconditions for the spread of terrorism include conflict, poverty, human rights violations, social injustice and lawlessness. Efforts to resolve problems that are repressive pose a danger because violence breeds violence, and terror causes terror.

Radicalism, extremism and religiously motivated terrorism have a number of causes, and fighting them using force and law enforcement is ineffective. The problem requires rigorous intellectual approach and religious efforts.

The threat that religiously motivated terrorism poses to mankind is not limited only to loss of human life. Equally potent danger is present in an environment of suspicion and religious phobia created by terrorist activities. That is why intercultural and interreligious dialogue should not be limited to a narrow circle of political, religious, economic and intellectual elites but encompass a wide range of people from different countries. This dialogue should actively involve youth because this dialogue of religions, cultures and peoples is a “vaccine” capable of developing a strong immunity against terrorism and extremism.

There is no consensus on the efficacy of dialogue of religions and even though a majority of ordinary people and experts assume that such a dialogue is not only possible but also necessary, there are great number of opponents. Of course, such dialogue is not a solution to all existing problems but without it the fight against the ideology of hatred and violence is simply inconceivable.

Kazakhstan’s Contribution to Global Interreligious and Intercultural Dialogue

Independent Kazakhstan, led by its President Nursultan Nazarbayev, has done extensive work in the sphere of intercultural and interreligious dialogue. This was prompted partly by the new sovereign country’s geographic position, demographic structure and ethno-cultural diversity. Geographically Kazakhstan occupies a unique position in Eurasia and its denominational and ethnic diversity is remarkable: it has over 130 ethnic groups and over 40 religions and denominations.

Kazakhstan initiated a number of projects to establish and expand the dialogues of cultures and religions. These include the Congress of World Religions (2003, 2006 and 2009); the International Conference and Forums of Peace and Accord (2006 and 2008); the Islamic World and the West; and many other initiatives held in international and regional formats, such as the Conference on Interaction and Confidence-Building Measures in Asia (CICA). Kazakhstan chaired the Organization for Security and Cooperation in Europe in 2010 and the Organization of Islamic Cooperation in 2011. The UN backed Kazakhstan’s initiative to declare the year 2010 as the International Year for the Rapprochement of Cultures.

Kazakhstan chaired the Council of Foreign Ministers of the Organization of the Islamic Cooperation (OIC) in July 2011 and was the first country in the CIS to chair this influential international organization. One of the important aspects of the chairmanship of the OIC and Kazakhstan’s consequent involvement in the activities of international organizations is the expansion of a dialogue of civilizations between East and West and, in particular, between the Muslim and Christian worlds.

Kazakhstan’s policy in the sphere of interreligious dialogue is reflected in the historic declarations made at numerous congresses that it has been involved in.

The First Congress of World and Traditional Religions was held in Astana in 2003 and welcomed 29 delegations, while the Third Congress (held on July 1-2, 2009) was attended by 77 delegations from 35 countries. The First Congress adopted a resolution declaring interreligious dialogue as the most important instrument for maintenance of peace and accord among countries.

The Second Congress was held in 2006 at a time when the world, especially the Middle East, was witnessing an escalation of conflict. At the time, spiritual leaders who gathered in Astana appealed to the countries to continue dialogue and take measures to strengthen the culture of peace and accord.

At the Third Congress of World and Traditional Religions, Nursultan Nazarbayev noted that the current crisis could not be overcome without changing of consciences and without strict adherence to high moral principles.

The congresses themselves and the resolutions they adopted helped further intercultural and inter-religious dialogue, created the conditions in which various initiatives could be implemented which could turn the planet and individual regions into a zone of security and tranquility.

The Fourth Congress of World and Traditional Religions was held in Astana on May 30-31, 2012.

The establishment of special coordinating bodies and procedures raise hopes that there can be regular and productive dialogue in the future. People's Assembly of Kazakhstan and ethno-cultural centers are working towards the institutional provision of a minorities policy. Interethnic accord and interconfessional tolerance were identified as the

main priorities of domestic political reforms and Kazakhstan's minorities policy from the country's very establishment.

In the 21st century, Christianity and Islam will be the two defining religions on the international arena. It is important to remember not only what divides these two religions but also what unites them. Only by recognizing the dialectic of unity and division can the representatives of these two world religions work jointly to counteract global challenges. This approach which will facilitate the debate as to how Christianity and Islam should interact in the 21st century and how to build a stable, just and secure world on the shared planet.

This does not mean that believers of either religion should abandon their views in favor of preserving peace. However, they should realize that mankind should be more tolerant and moral. Both Christianity and Islam adhere to these principles. "So in everything, do to others what you would have them do to you," the Bible teaches (Matthew 7:12). One of the Hadith says, "You possess two qualities that Allah loves. These are clemency and tolerance." The peaceful coexistence of Christians and Muslims is not only an imperative of the present, but is also prescribed by the religions themselves.

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Islam and Democracy

ANATOLY KOSICHENKO

The issues of the dialogue of cultures and civilizations are becoming increasingly topical. Finding answers to the problems that are now starting to define these dialogues is critically important for the future of mankind. Some of the many problems that have recently emerged relate to the relationship between Islam and democracy, since Western researchers reject the notion that Islam is able to accommodate democratic norms. If that is true, then denying the democratic attributes of Islam raises questions on the effectiveness of intercivilizational and inter-religious dialogue. How “compatible” Islam and democracy are, whether religions are democratic in general, and whether the modern world will ultimately manage to “combine” religion and democracy are the issues we analyze in this article.

These problems arise in several contexts and there are several standpoints from which they can be analyzed. Clearly, depending on which aspect of the problem is being discussed, and from which viewpoint, the answers may be diametrically opposed. We examine three contexts of the relations between Islam and democracy. Firstly, why is this question asked at all, and by whom? Secondly, what type of democracy is under discussion here, since it seems to be an accepted concept requiring no justification or explanation when several forms of democracy exist in the modern world involving the delegation of real power to the people in a particular country or region? Thirdly, are religions democratic at all and is it lawful to require them to comply with democracy, especially with the type of democracy that is currently dominant? We address each of these contexts and the problems arising from them in turn.

Firstly, why must Islam be required to conform with democracy? There are several answers to this. Since democracy is recognized in the contemporary world as the best form in which states may function, Islam is required somehow to fit into this mould.

Islam is expected to conform to the exigencies of democracy, otherwise a fundamental contradiction emerges between Islam and democracy, and this contradiction is at the heart of all the confrontations between Islam and the modern world, including extreme forms of fundamentalism, Islamism and extremism. This is the most rational and theoretically justified explanation as to why Islam should be required to conform with democratic principles.

The second explanation relates to the assertion that calls for Islam to comply with democracy emerged only as Muslim populations become more numerous and more active in Europe and when Europe perceived this as a threat to its social, cultural and religious identity. The issue here becomes one of Islam’s democratic credentials rather than just Europe’s attempt to adapt Islam to its traditional European settings; democracy here being the natural backdrop to this adaptation. If this assumption is correct, then Islam should not, contrary to its own value system, pretend to be something compatible with the modern norms of democracy, especially where this concerns Western countries’ somewhat absurd version of democracy which directly contradicts the moral traditions of Islam, for example with regard to moral and family life. The advice to European politicians, public figures, political analysts, cultural experts, theologians and all those who are justifiably concerned about the erosion of European identity because of Islam’s active position on the European continent should be that there is no need to adapt Islam to one’s liking by any available means because this is unlikely to succeed and will be fraught with tension and conflict.

Islam should be understood as it is and in terms of its religious essence. This should preclude Europeans constantly having to address questions of whether or not national legislation should incorporate those elements of the Sharia law when it does not contradict European legislation. These include whether the call to prayer and the hijab should be

allowed; whether an oath should be taken on the Bible when someone takes up a senior government position or whether all religious references should be removed in this and in numerous other cases: displaying the Christian cross in schools and government buildings; mention of the origin and essence of Christmas celebrations; whether children should have any religious education in school (although how could tolerance then be fostered?); whether the unofficial surveillance of Muslims in the army should be even stricter or not; and so on and so forth. There is an endless list of examples where reference to Christ could be removed from public life in Europe both to avoid Muslim discontent and to require the same level of secularism from Muslims. At the same time, we should clearly understand that even if Europeans manage to free themselves from religiosity, demanding that Muslims abandon outward manifestations of their religion would surely be fruitless. This is because Europeans have been strongly influenced by secularization, whereas Muslims do not accept secularization for confessional, dogmatic reasons. As a result, taking this path—a path which at first glance seems both correct and justified to the Europeans accustomed to compromise—will achieve nothing.

It should be clearly recognized that on one side (Europe, Europeans) there is an almost total loss of religiosity, while on the other (Muslims) religiosity is increasing (Islamic identity is one of the reasons for this, and although it is born of necessity to an extent in Europe it is not less significant because of this); therefore it is impossible to solve this problem in the purely political context for purely objective reasons and not because of a lack of effort or misguided action. In fact, efforts to “improve” the situation have been misguided and will continue to be futile as long as such methods are pursued. The complexity of the situation with regard to the “assimilation” of Muslims in the European space is caused by economic and circumstantial factors, and there is scope for improvement here. For example, Islamic capital could be attracted into Europe and be managed jointly by Europe’s Muslims including interest-free loans and mortgage conditions according to Islamic tradition. In this context we should welcome the growth in the number of Islamic banks and those offering some

of Islamic finance in Europe, though this in itself is not enough. Joint economic activities should be developed. This gives European Muslims a stake in maintaining stability in society and may help to resolve problems that cannot be solved without their motivated engagement. As a result, economic motivations may significantly encourage the process of “assimilating” Islam in Europe. However, we should stress that despite the significance of economic factors they alone will not provide the solution to the problem.

The methodologically correct way of resolving any problem (and particularly of this kind) is to address it from where it emerged. If a problem is economic in origin, for example, then political measures may go only some of the way to reducing its severity. The problem ultimately must be solved in the context in which it emerged, i.e., in the economic sphere. The same can be said for political problems, which must be resolved in the political context, even though economic measures may mitigate it to a certain extent. It follows, of course, that problems that are rooted in religion may only be satisfactorily resolved in the religious context. If the integration of Islam into the politics and cultures of Europe is not succeeding, then this is not the fault of Islam itself and one should not blame its inherent fundamentalism or the extremely close links between the Islamic faith and politics. These are certainly aspects of Islam but they do not define a strategy of interaction between Islam and democracy. These relations are defined by democracy’s ability to accept Islam as one of the world’s religions that aims to bring people to Allah, which can only be achieved through the believer’s submission. Therefore, Islam, despite its perceived politicization and inclination to what is now called fundamentalism, is, in its essence, a religion of peace and accord. Why do so many conflicts, ambiguities and erroneous assumptions arise? Is it because of an inability, in European countries in particular, to properly evaluate Islam? Why cannot European democratic regimes integrate Islam?

Perhaps this is happening because Islam, as a religion and belief system, has built its own model of democracy which is very dissimilar to the European one. It is not coincidental that prominent members of the Ulema speak in one voice about Islam’s democratic character. The assumption that

these leaders either want to mislead Europe or pander to it indicates a lack of understanding of Muslim dignity and pride. From the European point of view, Islam suppresses women, while Muslims (including women) claim the opposite: Islam provides women with significant advantages compared with men. There is one small but important detail that prevents Europeans from understanding the nature of this advantage: one has to be immersed in Muslim culture in order to recognize it. From the point of view of Western democracy, women are indeed suppressed, especially if they are deprived of their unique roles as wives and mothers and made equal to men in every aspect of their lives. Absolute gender equality, which became a tenet of democracy in the West a long time ago, prevents Western researchers of Islam from understanding a simple truth about traditional religions (Islam is not alone in this regard, its family values are very similar to those of Christianity); religious values, from a believer's point of view, are in no sense inferior to and, in fact, are much more important than liberal values. Of course, if the world recognizes only liberal values, then there is no problem: those who do not share these values are wrong. Islam is not a problem either: it is always wrong. So Islam can be made to integrate rigidly into Europe, but only on condition that it adopts the same liberal values. This will never happen, however. Islam is different from European culture (although, as we know, medieval Muslim culture preserved its classical antiquity for Europe) and its liberal values. Democracy is democracy because it can accept a different truth rather than suppress it. Only by understanding this can we speak of tolerance and potential for dialogue. Conventional wisdom in the West suggests that the time has come for it to launch an extremely complex dialogue with the Islamic world. It is the West itself that should initiate such dialogue, without waiting for the Islamic world to prepare for it. We could go further: the West needs this dialogue more than Islamic countries do. In any case, this important topic is not part of the problems discussed in this paper.

Thus, we come to the *second context of Islam's compatibility with democracy* which was identified at the beginning of the article; the diverse forms of democracy in the modern world. It cannot be denied that Western developed countries enjoy

advantages in almost every sphere of public and state life from political systems to the economy (the current financial and economic crisis does not alter this assessment). The argument of success is a strong one. However, if we are truthful and do not view the Western model of development in absolute terms of success, material wealth, comfort and high levels of consumption, if we understand the quality of life to mean the quality of life itself, not material wealth, if we value not only "living standards" but life itself in all its manifestations including deeply humane values such as communication, love, loyalty, trust and friendship, then the success of the Western model may seem questionable.

The same could be said of democracy. Certainly, the notion of democracy is now linked justifiably to its Western examples. However, if democracy is power of the people, do the countries with a developed Western democracy and the semi-totalitarian regimes of most Islamic states differ so much? Do any people anywhere in the world possess real power, not just the semblance of power? We accept that democratic norms may sustain the argument for humanitarian intervention but not for the humanistic life of society. Let us reiterate that Islam created around itself a way of ordering society which corresponds to its values and in which the principle of justice operates as it is understood by Islam. This is Islam's democracy. Let us expand this thesis by asserting that Islam is the most democratic among traditional world religions. It is the most democratic even according to the Western vision of democracy—as a democracy of external forms of life. Christianity in this sense is far stricter and more hierarchical (at least in Orthodox Christianity and Catholicism). It is not the formal equality of abstract rights but each Christian's right to God-likeness that makes Christianity a democracy before God. However, in the earthly, mundane and external world Christianity is not democratic to the highest degree. That is why liberal regimes that uphold equal rights for all, rights that are rooted in personal dignity, so openly counterpose themselves to Christian values, because in Christianity people are granted their dignity and freedom by God, while in liberal regimes these come from people themselves. This difference of approach to the nature of dignity and sources of freedom makes modern Western democratic countries secular, Godless and

devoid of religiosity. And this is with all external, ostensible religiosity of most European countries.

To substantiate our arguments regarding the existence of this special form of democracy in and around Islam, we refer the reader to a number of documents which quite clearly describe the nature of this democracy. The first of these is the *Cairo Declaration on Human Rights in Islam* (1990). The text of this declaration makes clear the rights of Muslims which it guarantees to protect. For example, the protection of practically all the rights of Muslims is predicated upon the compatibility of these rights with the norms of the Sharia. But a Western democrat will question the nature of these rights if upholding them means contravening the Sharia. But the rights of a Western citizen are based on Western liberal system. Whether it is the Sharia, or a system of liberal values, in both cases, compliance with the system is required if we are to exercise our rights.

Another important document in this regard is the *Arab Charter on Human Rights* (1994). As in the document above, we can find many undemocratic articles and provisions (from the point of view of Western democracy). But close reading of the entire document enables us to conclude that this charter guarantees observance of the majority of basic rights even by Western standards. It is a different matter that it guarantees the rights of Arabs or Muslim citizens of Arab countries, rather than everyone. But we have something quite similar in the West too.

We can also look at other documents or practical ways in which Islamic societies function, for example, the mechanisms for exercising democracy in the Shura or the Constitution of Medina and everywhere the same picture emerges. There is justice, there are rights and freedoms but all these become so in the system of Islamic law and way of life. Whether we should accept these forms of democracy or not consider them as such depends on our system of references and criteria for democracy. However, one thing is indisputable: in an Islamic society it will never be possible to adopt principles of democracy in their absolute Western form. Muslims in Islamic countries will not accept them, nor will Muslims in European countries. That is why either the understanding of democracy should be expanded in order to recognize democratic norms

in Islam or Islam should be left out of democratic assessments and dialogue with it brought onto another plane, for example the plane of the compliance of the moral paradigms and value systems of the West with Islam or discussion of ways of executing social justice (this topic, by the way, is very important for Islamic societies).

We now examine the *third context of relations between Islam and democracy*: can religions in general be democratic and how democratic are they? We must accept here that this topic has been studied minimally. It is of course known that the entire value systems of traditional religions ascend to God, and He is accepted as the ultimate goal of a believer's spiritual efforts. And this establishes a pattern of "chosenness" and hierarchy. We know that not all people are equal in religions. And this is "undemocratic" too. We also know that it is not democracy but submission of oneself to God in all regards that is the basis and valor of faith, and this also defines an advantageous and preferable standing and relationship. All this is well known. But other questions are less well studied: how faith is compatible and if indeed it is compatible at all with democratic norms, especially when such norms are put into practice; how a believer should behave when the demands of faith contradict the demands of a liberal value system: more important dilemma for a believer is whether to remain alive but give up their faith or die but remain loyal. Clearly, almost all these questions are finite in nature or at the borders of human existence. But what is the alternative? Since we chose to search for the foundations of the compatibility with religious realities of the "real" and mundane existence of society, then the answers cannot be simple. There is no other way to resolve this purely practical issue of how to make Islam and democracy compatible.

Let us attempt to show how this quite complex methodology may solve specific practical issues, for example, regarding the integration of Islam into the culture and politics of European countries. We have already mentioned the dominance of secularism in the former Christian countries of Europe. Without going into the detail of the causes of this situation (although the analysis of these causes would reveal much about current and future of relations between Islam and Europe), let us stress that liberal-secular values at the heart of the dominant

mindset in the West make it impossible to approach Islam comprehensively. It is either discussed from the point of view of its "inclination" towards extremism, or when the public display of Islamic symbols and attributes raises protest or fear of the "Islamization" of Europe, or concerns of this type. Even if Europe gave Islam its due regard, fear and rejection of Islam would persist and potentially worsen. An "ordinary" Western person does not understand how to live and build their entire life on religious values.

This is the essence of why Islam is rejected by European societies: the secular West sees organized religiosity in Islam, the religiosity which needs external forms of manifestation. This explains why Europe's Muslims and European democracies have such different views of the external attributes of Islam such as the hijab, minaret, the length of a Muslim's pants or his beard. "Do believe but without manifestations of your religion which upset Europeans," ordinary people, members of parliament and leaders of European countries say. "Our faith requires these manifestations," Muslims reply. "We are not against the devout worship of Islam but we do not want your minarets," Europeans say (57% of Swiss citizens have voted against the construction of minarets in the country)*. "We have a right to practice our religion as it should be practiced," Europe's Muslims reply.

The answer to the troublesome issue of the integration of Islam into the European space becomes clear if we bring together the previously opposed standpoints of indigenous Europeans and Muslim newcomers. Muslims should be given the opportunity to worship Islam and Islam should be acknowledged as a valuable asset, arguably not of great natural value to Europeans but of value to Muslims. And it may indeed become quite an acceptable reality for Europeans too. However, in order to understand Islam precisely in this quality, Europe must recall its religious, i.e., its Christian roots (a subject which Pope Benedict XVI and Patriarch Kirill of Moscow and All Russia return

to frequently). Europe should not respond to the "challenges" it perceives in Islam by being fearful of Islam and the Islamization of Europe but with a Christian spiritual renaissance. Any response to a spiritual "challenge" should be entirely spiritual. There is no other appropriate response. Shouldn't this be clear to those whose initial reaction had been to use force in order to "pacify" Islam? Increasingly nonsensical decisions regarding Islam are being taken by European authorities at every level. Only when Christianity is reintroduced into public life in Europe, even at a minimal level, appropriate and effective decisions regarding the "Islamic" question can be found. It would become obvious very quickly that spiritual issues on their own pose no danger to any society. While Europe's Muslims remain genuine Muslims, they must simply exercise Islam and not stage protests for reasons that are not always related to Islam. At the moment it is very hard, if not impossible, for secular Europe to recognize the difference between the true worship of Islam (a lawful, peaceful and secular Islam that is compatible with commonly accepted democratic norms; the attributes politicians and political analysts of Europe wish to attach to the Islam they find acceptable) and an Islam that is fundamentalist, aggressive and extremist (all these definitions are unhelpful). In such circumstances it is practically impossible for Europeans to build acceptable and rational relations with Islam. Hence, we believe that in order for Europe to resolve its issues with Islam, it should resolve the problem of its own religious identity. This is the path of solving the problem of Islam's integration into European culture and politics. The problem could be solved quite straightforwardly but it requires a spiritual sensitivity which does not exist beyond the religious tradition. One may disagree by saying that this is not a scientific approach, but the conclusion of the analysis conducted is clear: it is quite possible that Islam is a kind of test to Europe in order to return it to its Christian foundations, otherwise its own future looks extremely problematic.

* Of the 7.7 million people living in Switzerland about 400,000 are Muslims.

International Financial Institutions in Changing Global Economic Architecture

VYACHESLAV DODONOV

One of the consequences of the global financial crisis was that the world community felt the need to reform international financial institutions whose purpose is to regulate global economic processes; the International Monetary Fund (IMF), the World Bank (WB) and other organizations within the system. The reform was needed for many reasons, including the discrepancy between their functions and the needs of the global economy and distribution of administrative powers among member states which mismatches their actual contribution to the global economy. Let us consider these controversies in more detail.

The current imbalances in the IMF and WB can be explained by the fact that they no longer relevant to the system of economic relations they were set up to regulate in the 1940s within the Bretton Woods system. These institutions are formally parts of the United Nations with the following functions:

“Although the IMF is a specialized institution of the United Nations and takes part in the work of its Economic and Social Council, it is independent and has its own Articles of Agreement, management structure and finance.

Established at the Bretton Woods Conference in 1944, the International Monetary Fund:

- fosters global monetary cooperation;
- promotes exchange rate stability and regulates norms and rules in the currency sphere;
- assists in the establishment of a multilateral system of payments and in the elimination of foreign exchange restrictions;

- assists its members in correcting maladjustments in their balance of payments by making finance temporarily available to them.

The main financial role of the IMF is to provide short-term loans to its members who have difficulties with their balance of payments. The borrowing members agree to undertake political reforms in order to eliminate the causes of these difficulties. Borrowings from the IMF are limited in proportion to quotas. The Fund also provides assistance to low-income member states on beneficial conditions.

The governing body of the Fund is the Board of Governors which comprises representatives of all member countries and meets once a year. Routine operations are governed by the Executive Board consisting of 25 members. The International Monetary and Financial Committee, whose 25 members are members of the Board of Governors, advises the Board” [1].

The World Bank “seeks long-term economic development and poverty reduction by providing technical and financial support to help countries reform specific sectors or implement specific projects for example, building schools and health centers, providing water and electricity, fighting disease, and protecting the environment. WBG assistance is generally long term and is funded both by member country contributions and through bond issuance” [1].

The IMF and WB cooperate in many areas, in particular in poverty reduction in low-income countries, in alleviating the debt burden of the poorest countries, and in assessing the financial sectors of countries. The institutions have joint

meetings twice a year. The World Bank Group (WBG) comprises five institutions with different specializations:

1. The International Bank for Reconstruction and Development (IBRD) provides loans, political recommendations and technical assistance to governments of creditworthy middle-income and low-income countries. Interests on IBRD's loans are significantly lower than interests on commercial loans.

2. The International Development Association (IDA) provides interest-free loans and grants to governments of the poorest countries to finance poverty reduction measures such as improvements in governance responsibility and accountability, the investment climate and the quality of education and health services provided to the poor population.

3. The International Finance Corporation (IFC) invests in profitable private businesses in countries with restricted access to capital markets.

4. The Multilateral Investment Guarantee Agency (MIGA) fosters the attraction of foreign direct investment in developing countries by providing guarantees to investors against losses caused by non-commercial risks such as war, civil commotions or non-convertibility of currencies.

5. The International Center for Settlement of Investment Disputes (ICSID) fosters the attraction of foreign direct investment by providing international facilities for conciliation and arbitration of investment disputes between governments and foreign investors.

Therefore, the WB and WBG's functions do not include the regulation of global economic processes and are more of a humanitarian nature, with poverty reduction as their main focus. The IMF was initially focused on ensuring balance within the Bretton Woods system (as its name suggests). These objectives are still the Fund's official priorities (fostering global monetary cooperation; promoting exchange rate stability and regulating norms and rules in the currency sphere; assisting in establishment of a multilateral system of payments and in elimination of foreign exchange restrictions), although the system for which it had been set up was dissolved in 1971. The Bretton Woods system established the fixed exchange rates for member countries based on the US dollar's link to gold. If countries needed to devalue or revalue their currencies for economic reasons, the IMF took

part in the process as an exchange rate regulator and a lender for those countries that needed additional finance to stabilize their currencies.

However, after 1971, when the USA refused to back their currency with gold, the system of fixed exchange rates was brought to an end and the current Jamaica monetary system was adopted where exchange rates are determined by market prices. Accordingly, after 1971 the IMF's main functions lost their meaning because the fixed exchange rates were no longer used although the Fund had been created to maintain them.

Under these conditions the IMF acquired new functions. In recent decades it has focused on providing loans to crisis and transition economies, including post-socialist countries.

A major criticism of the IMF is that, in exchange for its loans, it requires that governments conduct reforms that, in most instances, weaken the respective economies, undermine domestic businesses and result in an expansion of foreign capital (specifically American), which, in turn, often becomes the main beneficiary of the IMF-led reforms. Cooperation with the IMF often resulted in the countries' chronic dependence on foreign loans to pay their debts. The scenario was as follows: a country was offered a loan to conduct the reforms, then the national currency devaluated and the debt denominated in the impaired national currency increased proportionately. This made the country strongly dependent on further loans and it had to take the measures dictated by officials from international institutions. This is one of the reasons why the IMF is often considered to be the US' means of influencing developing economies and why it is severely criticized by these economies in particular.

In many respects, the equation of the IMF with American interests is justified because the Fund was initiated by the USA (although the resolution to establish it was taken by 45 countries) and the USA, throughout the period of its existence, had the highest portion of its quotas in terms of both contributions and votes. Despite regular quota revisions, which usually take place every five years (a total of fifteen revisions in the IMF's history), the USA still reserves the right to veto IMF key decisions as it owns more than 17% of votes while the most important decisions are to be made by a majority of 85% of votes. This situation

remained unchanged even after the November 2010 resolutions to “unprecedentedly” reform the IMF when the votes were redistributed in favor of developing countries, primarily the BRIC. The principal decision to this effect was taken at the meeting of the G20 Finance Ministers and Central Bank Governors and on November 8 the respective resolutions were approved by the IMF Board of Governors.

As a result, the US share will decrease to 17.4% from 17.7%, Japan’s to 6.46% from 6.56%, Germany’s to 5.59% from 6.11%, and France and the UK’s to 4.23% from 4.5%. The shares held by developing countries, the BRIC in particular, should increase. Russia’s quota will grow to 2.706% from 2.494%, China’s to almost 6.4% from less than 4%, India’s to 2.75% from 2.4%, and Brazil’s to 2.3% from 1.8%. Kazakhstan’s quota is also expected to grow, from 0.179% to 0.243%. Because of the twofold increase in the Fund’s capital, China is expected to become the third largest owner of quotas while the three other largest developing countries (Russia, India and Brazil) are expected to join the top ten quota owners. Table 1 provides additional details about the shares of the leading countries and their groups before and after the reform.

However, as stated above, the actual alignment of forces will remain unchanged in the IMF since the USA will still be in a position to block any important resolution and the leading countries will maintain their high profile. The redistribution of only 6% of quotas cannot change the Fund’s administration. In addition, the implementation of the above decisions has been postponed several times: the resolution was taken in October 2010, but the actual redistribution of quotas is expected to occur, according to the most recent data, no earlier than in January 2013. In late April 2012 the International Monetary and Financial Committee made a statement that, “We reaffirm the urgency of the management reform and the quota redistribution system agreed in 2010. We hope that the agreement to simplify and ensure the transparency of quota distribution will be made by January 2013 and this will better reflect the member countries’ position in the structure of the global economy” [3].

In fact, the IMF reform will not reflect the actual balance of powers in the global economy even after votes are finally redistributed. The current procedure for establishing quotas is based on a number of key macroeconomic indicators that are the ratio of a country’s economic weight to its quota. The IMF uses a formula for calculating quotas that shows

Table 1. Distribution of IMF quotas between leading member countries before and after the reform of 2010-2013 [2]

	Quotas		Votes	
	Before	After	Before	After
Groups of countries				
Developed economies	60.5	57.7	57.9	55.3
G7	45.3	43.4	43.0	41.2
EC-27	31.9	30.2	30.9	29.4
Developing economies	39.5	42.3	42.1	44.7
Transition economies	7.1	7.2	7.6	7.7
Countries				
USA	17.7	17.4	16.7	16.5
Japan	6.6	6.5	6.2	6.1
Germany	6.1	5.6	5.8	5.3
France	4.5	4.2	4.3	4.0
UK	4.5	4.2	4.3	4.0
China	4.0	6.4	3.8	6.1
Italy	3.3	3.2	3.2	3.0
Saudi Arabia	2.9	2.1	2.8	2.0
Canada	2.7	2.3	2.6	2.2
Russia	2.5	2.7	2.4	2.6
India	2.4	2.8	2.3	2.6

a member state's relative position in the organization. The quota formula is a weighted average of GDP (50%), openness (30%), economic variability (15%), and international reserves (5%).

However, if to measure objective indicators in the formula such as GDP or international reserves, there is a serious mismatch in both the current figures and those anticipated after the redistribution of shares. For example, the international reserves in developing countries have been for a long time larger than in developed countries and this gap is increasing yearly, having become twofold by 2011 (Figure 1).

The share of developing economies in the global GDP is also increasing rapidly. The IMF estimates that in 2014, developing countries will account for more than 50% of the world's GDP. However, their share in the IMF quotas in the same year, after the current lingering reform, will still be significantly lower than 50%. If one considers the shares of individual economies, both developed and developing ones, in the IMF compared to their shares in the global GDP, the gap becomes clearer with respect to both the current quotas and those after the reform (Figure 2).

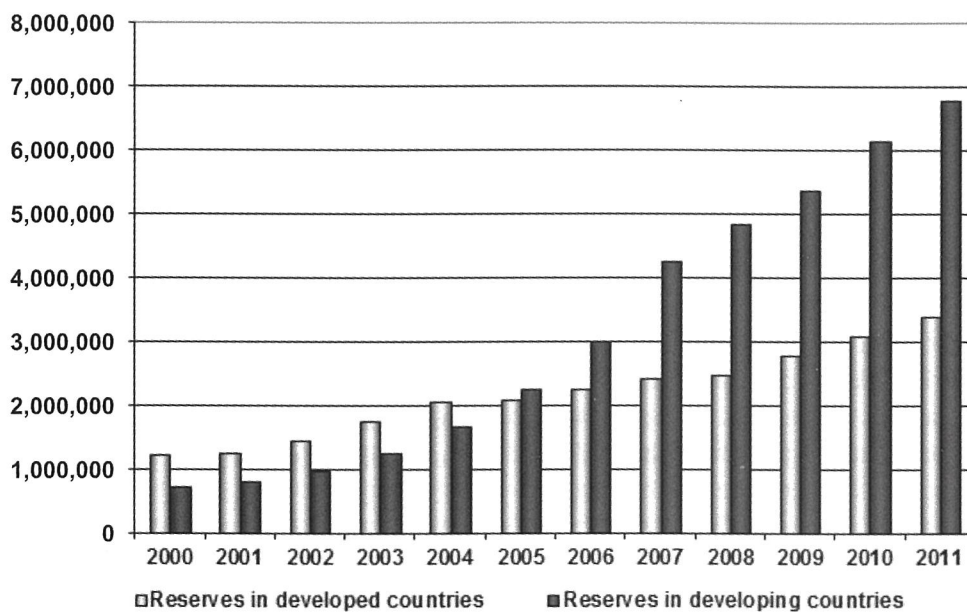


Figure 1. International reserves in developed and developing countries in the 2000s, \$ million*

The shares the EU and China in the IMF are particularly disproportionate to their contribution to the global economy. The EU countries' aggregate quota in the fund is 32% while their share in the global GDP is only 25% in nominal terms and 20% in terms of the purchasing power parity (PPP). After the reform, its share will remain disproportionately high at 30.2%. This share is composed of the inflated quotas of leading European countries, including Germany, France, Italy and the UK. Each of them has a quota that is considerably higher than their contribution to the global economy. At the same time, China for a long time had the most

underestimated quota relative to its contribution to the global GDP; a mere 4% while Chinese economy accounts for 10.5% of the world's GDP in nominal terms and 14.3% in terms of PPP. The increase in China's share to 6.4% after the reforms will still fail to reflect its role in the world economy, given in particular the fact that by 2013, when this increase takes effect, China's contribution to the global GDP will also have grown.

Another important factor to consider, in addition to the countries' quotas and shares in the IMF (and the WB), is their representation in the top governing bodies of these institutions in particular

* Calculated by the author using the IMF's data on Currency Composition of Official Foreign Exchange Reserves (COFER).

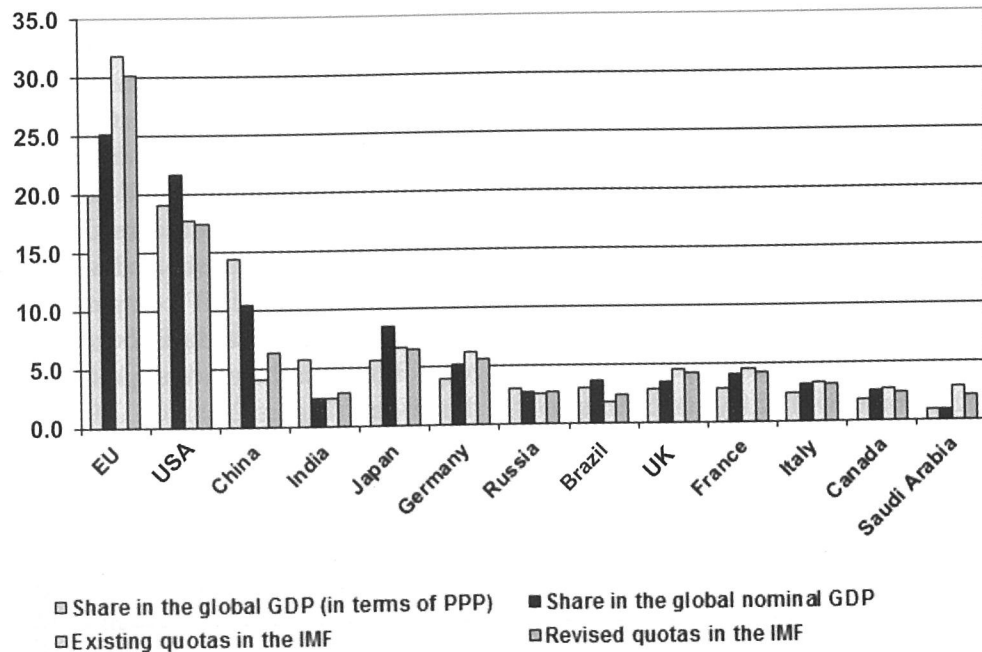


Figure 2. Shares of the IMF largest members in the fund and the global GDP, %*

the Board of Governors and the Executive Board. The Executive Board, which comprises the chairman and 24 executive directors, is the body that exercises the actual management of the IMF and the WB and elects their executive officers who traditionally represent Europe (the IMF) and the USA (the WB). The IMF and the WB form these bodies in a similar fashion. The five largest countries (before the reform) in terms of quota sizes appoint their representatives directly (these are the USA, Japan, Germany, France, and the UK). Other three major countries (China, Russia, and Saudi Arabia) are also eligible to appoint their executive directors directly. The remaining sixteen directors are elected from groups of member countries.

Over the years, a procedure has been established requiring that the election rules ensure a geographical balance in the Executive Board. In practice, however, larger countries having authority in these institutions (the founders) form a group of satellites around them who vote for their nominees. Kazakhstan, in particular, is part of the "Helvetistan group" in the WB and the IMF, which was named so because its members are the CIS Asian states (all the five states), Azerbaijan, Serbia and Poland

and these elect a Swiss** director. Poland is the second largest IMF shareholder in this group after Switzerland and consequently its representative is appointed as the deputy to the Swiss director. The group of countries headed by Switzerland holds 2.82% of shares, while Switzerland itself has 1.57%.

At present, out of sixteen directors elected from groups of countries in the IMF, eight directors represent developed economies (Belgium, the Netherlands, Italy, Singapore, Australia, Canada, Denmark, and Switzerland), and other eight are from developing countries (Mexico, Lesotho, Egypt, India, Brazil, Iran, Argentina, and Togo). The situation in the WB is almost identical (given that it has 25 directors): eight executive directors are from developed countries (Austria, the Netherlands, Spain, Canada, New Zealand, Italy, Sweden, and Switzerland) and nine are from developing countries (Brazil, India, Pakistan, Kuwait, Indonesia, Argentina, South Africa, Sao Tomé and Principe, and Sudan). The only CIS' representative in the IMF and WB governance, with the exception of Russia, is Ukraine that has a deputy director in the group of countries voting for the Dutch director.

* Calculated by the author using the IMF data for 2011.

** Helvetia is the Latin name of Switzerland.

Therefore, developed countries dominate the key governing bodies of these international financial institutions and for this reason their policies remain focused on the interests of these countries.

Another reason why these institutions fail to fulfill a regulatory function at the supranational level as the modern global reality requires is that they are limited in resources, which are insufficient to pursue an effective regulatory policy in financial markets that have become gigantic and are now measured in tens of trillions of dollars. In particular, the WB's budget for 2012 envisages its lending capacity to be between \$38bn and \$48bn [4]. The IMF's capital is \$365bn at present and although it is expected that this will increase to \$732bn in accordance with recent resolutions, this will happen after the 2013 reforms have been completed. To give perspective to these figures it should be said that assistance to Greece only during the debt crisis was estimated at more than €300bn (including debt write-offs), i.e. almost \$450bn (the IMF's share in this assistance was a mere \$37bn [5]), which exceeds the IMF and WB's aggregate lending potential.

The above facts suggest that the IMF, the WB and other international financial institutions do not manage to meet the requirements of the global economy in several key aspects. First, their functions have become irrelevant. Second, their governance structures do not reflect the current positions of countries and their groups in the world economy. Third, the IMF and WB's resources are insufficient to continue to operate as supranational bodies that regulate the world economy.

These controversies result in attempts by other countries and groups, which have a disproportionately small share in the current IMF and WB structure, to form alternative institutions that would be able to solve problems and be more accountable to their founders. This is the case not only for developing countries, but for developed economies as well. An example is the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) established by the EU to fight the Eurozone debt crisis. The resources made available to these institutions are significantly bigger than those of the IMF and the WB. In addition, in recent decades, some regions and international organizations have begun to set up their own fi-

ancial institutions in order to address regional development tasks without being dependent on the IMF and WB resolutions. The resource potential of the newly established institutions is comparable to that of the IMF and the WB. In particular, the Asian Development Bank (ADB) has a capital of \$55bn, the European Bank for Reconstruction and Development (EBRD) €30bn (approximately \$42bn at the current exchange rate), and the Islamic Development Bank (IDB) has a paid-in capital of \$5.2bn. A rather moderate (in terms of the scale of its activities) Eurasian Development Bank (EDB) set up in the framework of the EurAsEC (with a population of about 170 million) has a capital of \$1.5bn.

Another trait of present-day global economy, which should be taken in mind when we analyze the resources of institutions available for economic regulation, is that developed and developing countries pursue different approaches to public finance. While developing nations finance their economic programs from, almost exclusively, their state budgets and, when these are insufficient, by issuing debt obligations, developed economies boast considerable out-of-budget sources, including reserves and sovereign funds. In major developing countries the reserves, sovereign funds and (sometimes) assets of state-owned corporations are commensurate with the capitals of the above international banks and often exceed the resources of the largest international financial institutions including the IMF (Table 2).

The above table shows that the IMF resources are less than the resources of some countries and even some institutions. In particular, its size is inferior to the reserves of some larger economies (China, Japan, and Russia) and to many sovereign funds and state corporations. The fact that the EU, in a matter of months during the crisis period, formed a special fund to address debt problems, which is almost thrice as big as the IMF, reveals not only the IMF's limited opportunities but the level of trust its founders, which includes most Eurozone countries, have in its structure.

Given the low efficiency and disputable nature of resolutions of the IMF and the WB, on the one hand, and the fact that major developing countries and regional associations boast their own large resources, on the other, further existence of

Country	Resources, \$ billion
China (reserves)	3,181
Japan (reserves)	1,342.5
EU (European Financial Stability Facility)	1,015
UAE (Abu Dhabi Investment Authority)	627
Norway (Government Pension Fund)	611
China (SAFE Investment Company)	568
Saudi Arabia (SAMA Foreign Holdings)	532.8
Russia (reserves)	506.3
China (China Investment Corporation)	439.6
IMF	365
Brazil (reserves)	355.1
Kuwait (Kuwait Investment Authority)	296
Hong Kong (Monetary Authority Investment Portfolio)	293.3
India (reserves)	293.1
Singapore (Government of Singapore Investment Corporation)	247.5
Singapore (Temasek Holdings)	157.2
Russia (National Welfare Fund)	149.7
China (National Social Security Fund)	134.5
Qatar (Qatar Investment Authority)	100
European Central Bank	88.3

these institutions in their current condition seems questionable. The world's leading macro-regions do not need the IMF because they have their own resources to overcome crises (the US' FRS money injection programs, the EU's EFSF, China and Japan's vast reserves, Russia and other raw material exporters' reserves and sovereign funds, Southeast Asian countries' state corporations). Moreover, each of these internal sources of funding is easily available and not conditioned by encumbering terms as the IMF loans. Therefore, the IMF's key function in recent decades—lending to developing countries—will inevitably die away and the Fund will become one of the secondary sources of finance for addressing local crises as happened recently with loans to Greece, Portugal and Ireland.

This means that, with the altered functions of the IMF and the WB and of their weakening role of a supranational structure governing the global economy, the international financial architecture as a whole will change too. The first signs of formation of alternative mechanisms to the current financial architecture have already emerged and the intensity of these initiatives will grow if traditional international institutions remain inactive with respect to crises. At a summit of the BRICS countries in March 2012 the heads of Russia, Brazil, India, China and South Africa

signed an agreement to provide loans in national currencies. Russia and China do already make some payments to each other without using the dollar or the euro. We believe that developing countries will become increasingly proactive in advancing their own structures to influence the world economic processes and this will result in considerable changes in the global financial system in the next ten years.

These changes may have two directions. On the one hand, regionalization will become an increasingly widespread tendency and integrated countries will set up their own supranational institutions for regulation, development and anti-crisis measures (such as the ESM). The other possibility is renewal of the international structure of financial institutions based on new, fairer principles, which will work in the interests of most countries and not separate groups of countries.

The following can be deemed as prospects for the development of international financial institutions in the next ten to twenty years:

1. The role of the IMF and the WB will decrease gradually as their resource base lags behind the needs of the growing global economy and their tools of influencing financial markets become insufficient. The WB will focus on humanitarian projects while the IMF will become a throwback

to the era of developed countries' dominance and turn into somewhat of a club or a forum for regular programmatic statements such as the G7 or the World Economic Forum.

2. The role of regional financial institutions will increase with the ESM being largest of them in the near future. This organization will provide loans to overcome the ongoing debt crisis and will enjoy high credit ratings and demand for its debt obligations. The size of the ESM can be forecasted to increase to \$5tn over the next ten years. Similar structures will appear and develop in other integration associations, including the Common Economic Space and the European Economic Community. The world's largest economies, China in particular, which do not need partnerships to form these funds, will continue to advance their own investment and saving institutions and sovereign funds and the assets of the largest of them will also reach trillions of dollars in the next ten years. In many respects, the formation and advancement of these institutions will be due to growing ambitions of regional economic sectors, backed by the growth of the respective economies. The IMF forecasts China's GDP to increase to \$19tn by 2016 from \$11.2tn in 2011. The US GDP is expected to reach \$18.8tn by 2016 and its share in the global economy will decrease to 17.7%, while China's share will increase to 18%. Russia will outpace Germany in terms of GDP by 2014 and become one of the top five world leaders. Some international experts believe that India will be the most dynamically growing country in the world and its share in the global GDP will increase from 2% in 2009 to 7-8% or \$2.5tn in 2020.

3. As for the need to regulate global economic processes and financial markets, it is highly possible that the world's largest central banks will cooperate more closely and on a more regular basis. At present, this cooperation is very rare and only happens in extreme circumstances (for example, the earthquake in Japan after which the coordinated measures were taken to reduce the yen rate) or when acute financial crises occur. However, as imbalances and volatility in the markets become stronger, the need for this cooperation will arise increasingly often and this may result in the formation of standing bodies to coordinate the efforts of the world's key central banks.

4. Sovereign funds and state investment corporations, primarily from developing countries, whose aggregate assets already exceed \$5tn and are growing very rapidly, will be an important factor in global financial system in the next ten years. In foreseeable future these institutions or some of them may form better-structured organizations (within a region or using other common grounds such as the BRICS countries or oil exporters) and these will become regulators in the global financial markets.

5. In addition, there is a possibility that developing countries, which are dissatisfied with their role in the current financial hierarchy of international organizations, will attempt to form new global financial institutions as an alternative to the IMF and the WB. China and Russia may be the initiators and it could cause confrontation between the old and new financial centers in the context of the "multi-polar world" concept. If this happens, the destructive tendencies in the world economy will strengthen and this could well result in unpredictable changes in the global financial system.

The above trends have already begun to form. In recent years, the IMF's role in the global economy has become significantly weaker: during the 2008-2009 crisis major national monetary regulators (the US FRS, the European Central Bank) had significantly stronger influence on financial markets and in the process of the current settlement of the European debt crisis the IMF's role is considerably lower than that of specialized European institutions (EFSF, ESM). Sovereign funds have acquired an increasingly important role: in 2008-2009 they acted as stabilizers in some markets. The same is true for the coordinated actions of leading central banks that, during the crisis, repeatedly took coordinated measures to decrease their rates and support financial markets.

All these examples show that the transformation of the global financial architecture has already begun. Attempts are being made (fragmentary for the time being) to build a global regulatory system and these can be expected to continue over the next ten years. However, we believe that, amidst this transformation, the role of the IMF and the WB institutions will decrease because their tools are insufficient to ensure the required regulation. At the same time, forms and institutes of regulation that

can influence the markets in a rapid and more efficient manner will become increasingly important.

The new regulation of global economic processes will comprise a coordinated monetary policy from the central banks of the countries that issue reserve currencies and represent the largest economies; transactions in the markets or their segments executed by central banks, sovereign funds and state investment corporations; and region-wide stabilization measures on the part of specialized financial institutions (ESM and similar structures) to address such issues as the increasing profitability of debt obligations, the deficit of loan funds, and speculative attacks in certain market segments.

However, both the IMF reforms and the attempts to build a new global regulatory system will not be able to cope with the challenges posed by the out-of-balance system of financial leverages, because they do not address the root causes of crises. To this end the global community should focus not on "cosmetic" reforms of international financial institutions but rather try to eliminate the systemic causes of crises and imbalances

in the current financial architecture. The main crisis-generating factors are the inflated financial markets that do not reflect economic reality; the bonding of lending and investment activities by banks, which results in the considerable growth of financial flows not into the real sector but into speculative transactions; the irrelevant system of investment criteria based on credit ratings; and the growing public debt of the largest developed countries that may result in default on debt and an unprecedented crisis.

If these issues remain unsolved the IMF and WB reforms will have no noticeable impact in preventing new crises. Therefore, the key objective of the forthcoming reforms should be not to improve the distribution of votes in the IMF and the WB but to find solutions to the key problems facing the global financial system. Otherwise, it is highly possible that a new crisis, which will overshadow the previous ones, will strike in approximately ten years. If this happens, transformations in the global economy will occur incidentally but will be significantly more expensive.

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Islamic Banking To Cure Interest-Income Addiction

URAZ BAIMURATOV

The Islamic finances and institutions are increasingly recognized in the world economy. However, the Islamic financing, as any complex social phenomenon, requires better understanding in order to reveal the problems and specify the directions of its further development. Not surprisingly there is a considerable difference in opinions and judgments about the Islamic banking.

The opponents to the Islamic finance system are both from the right and the left. Adepts of the Islam are concerned that the system referred to as the Islamic one is not altogether complied with the Shariat requirements and strongly object to any analogy with the conventional (Western) system in a number of positions: interest income, excessive mortgage prices, high bonuses for the bankers, etc.

The opponents from the left would like to see the Islamic financial system more liberal to make it rather similar to the conventional system and to avoid restrictions rooted from the Islamic ethics as much as possible. The agenda is sometimes to confuse the public perception of the Islamic interest-free loans.

From our point of view, the criticism from the right is justified; in practice the Islamic financing is clearly not perfect having quite a few shortcomings due to the human factor. The potential of the true Islam has not been fully incorporated by the system itself, which, by the way, is inconsistent with fanaticism, radicalism, terrorism. On the other hand, it does not tolerate selfishness and addiction to interest-income. The Shariat prohibits taking usurious interest for loans. Paradoxically, in practical

terms, the loans without income (interest) are very rare, except for a very limited number of countries. The common practice is applied in Kazakhstan.

Although there are the problems and room for improvement of the Islamic finances, it would not be reasonable to refuse the name itself. Firstly, the term “Islamic banking” has already taken root in the world financial system. Secondly, its fundamental principles are based on the Shariat, with its fourteen-century history. Many would say that the Islamic economic model is superior to the conventional one both in terms of time and efficiency. Thirdly, analyzing the experience the system has gained, one should look for the ways, mechanisms and instruments of its improvement in order to bring it fully into line with the principles of the true Islam. That would be an affirmative and constructive approach.

To that end, it seems reasonable to consider a number of issues as those countries where the principles and practice of the Islamic economic model have not been applied yet have the opportunity to learn the lessons from the mistakes made by those who have been living with the system.

The Islamic financing model, in our opinion, may be improved in several aspects. However, the principles it is based on must remain inviolable as they provide the premise for harmonious economic and social development. There are the practices the conventional system lacks, namely, “zakat” and interest-free loans.

First of all, given that the Shariat prohibits taking usurious interest for loans through any feneration, granting the loans without revenue (interest) could be introduced into banking practice. Despite

of the obvious advantages of this Shariat principle, it has not been commonly used in the world so far. It enables to avoid negative practices commonly applied with the conventional banking that is prone to “bubbles,” excessiveness, leads to “interest-income addiction.” The system that is focused on gaining revenue from loans’ interests is the major cause for financial and economic crises aggravating inequality and social injustice, which is a very serious challenge to the civilization. The Islamic banking should function according to the other rules and principles, the question is how.

It is clear that Islamic banks will not be able even to survive in the present-day market economy, not to mention their prosperity, being engaged only in unprofitable crediting. Such extremity, like any other one, contradicts to the very essence of the true Islam that says us to be moderate in everything to reach and maintain harmony. On this basis, combination of two basic activities in the Islamic banking seems very relevant: interest-free lending (being unprofitable) and investment (being the major source of revenue) performed in the format of the “packaged financing.” All banking services and products should, where possible, be provided as a single “package.” Market and nonmarket mechanisms can be combined as it is the logic of the mixed economy. Combining interest-free lending and investment enable to avoid the clashes of the interests of the lender (Islamic bank) and the borrower (companies and individuals). The packaged financing, being as it is a combination of seemingly incompatible, is a convenient and effective tool to resolve the conflict of interests. When investment projects are efficient and numerous, banks are able to issue more unprofitable credits and there are more possibilities for packaged financing. This approach is more comprehensive and far-reaching.

Availability of interest-free loans in the packaged financing format makes them more attractive for companies of the real sector. Such loans have an important feature; they are a kind of “emergency rescue” available at any moment. Therefore, they should be returned in time. This is an important condition to be met given the growing demand for relatively small deposits. This contradiction between supply and demand can be avoided by increased velocity of money. The conventional (Western) financial institutions do not, and cannot by definition,

provide such kind of service. Therefore, the demand for the Islamic finances shall increase in time. As a consequence, in search of economic benefits, borrowers (companies and depositors) and money flows may divert from the conventional banking to the Islamic one. In the long run these competitive advantage may have a positive impact not only in economic terms but also in ethics. Naturally, economic benefits still remain the main motivation for most people under the current conditions. However, in the course of time the situation may change and ethics may play a more important role in people’s economic behavior; perception of money may alter as well. Hundreds of millions (if not billions) of Moslems and non-Moslems will, to the best of our belief, vote in favor of the Islamic economy and finances, and the world economy will turn towards the harmony. Addiction to interest incomes, in these sense, is the major obstacle; it even may result in self-destruction.

The two basically different economic models and systems of finances prevail in the current world economy, conventional (Western) finances and alternative ones referred to as Islamic. By the way, the similar concept of the reasonable use of money can still be found in the Judaism and Christianity. The Islamic finances emerged historically much earlier than the so-called conventional system. The question is what the principle differences of these two financial systems are.

It seems logical to compare them purely according to the financial and economic parameters and their competitiveness. However, the obvious thing is ignored that these models of economy and finances are not virtually comparable due to the moral premises they are based on. The Western model, that is regarded as conventional one, has actually no moral basis (it was degraded long ago) whereas the latter, the alternative one, has firm ethics. The differences between them are worth detalization.

If to consider all economic models existing in the world (Anglo-Saxon, Continental, Scandinavian, South-European, Japanese, Chinese and others) and compare them in terms of such parameters as social justice and stability, it appears that all the said models cannot thoroughly ensure the harmonic development of society and economy; the basic disharmony between the material and the spiritual is still there. More importantly, in all

above mentioned economies the former will always prevail over the latter. Determination to gain as much as we can and addiction to interest incomes speak for themselves. What are the consequences for economy and society?

This kind of earnings sometimes means nothing but *dolce vita* (why to work if one can live and get the revenue from the interests?). Motivation to hard labor decreases while the interest payments increase; it will certainly decline the production of goods and services. The crises in a number of developed countries are only proving that.

The chase for higher interest rates makes the bankers increase the number of the loans issued (often with high risks) since their bonuses are directly dependent on such an economic behavior. Banks do their best to attract clients; the quicker and easier it is to get the loan the better off are the banks and the bankers. The mortgage crisis in the USA revealed how perilous this interest-income addiction could be. Being guided by the economic laws of increase in needs, demand and supply, and being motivated by profit maximization, the participants in the real estate market deliberately inflated the volumes of mortgage loans, interest payments on them and the prices for housing. Being not limited by any moral consideration the banks blew up the "bubble" that was the major reason for the global financial crisis. The Islamic banks engaged in the mortgage market can operate more humanely issuing interest-free loans with reasonable payments and favorable conditions of repayment.

Deposits with interests provide unearned incomes to the depositors enhance long for money and material excessiveness, selfishness and egoism reducing simultaneously the sense of collectivism. Such distortion of consciousness may often have a drastic impact on society. Demolishing value of family and marriage and decline in the birth rate are among the negative consequences. Developed nations today face the challenge of the ageing population and depopulation. And this depopulation is without wars and epidemics. The above implications reveal the negative nature of the economy that is prone to interest-income addiction.

The role of the Islamic economic model is increasingly significant as it may bring more harmony into social and economic relations. The Islamic economic principles, if used in full, may to a large

extent eliminate social injustice, which is inevitable under any other economic models. The Islamic economic model is more balanced through maintaining moderate rates of economic growth, social justice based on the real sector and the GDP redistribution.

The five basic principles must be maintained to move the social and economic relations to greater harmony. They are required by the commandments of Allah, and by following them a nation can choose the right vector of development:

- individual moderatism in needs and desires;
- justice in economic relations;
- empathy of the rich towards the poor;
- balance of individual and collective interests;
- private ownership.

A combination of the Islamic financial banking with the conventional "Western" model is possible in the process of modernization of the national economic system with its gradual move to the social economy of a new type.

The experience of the number of countries shows that such kind of combination of the principles of economic behavior is possible and vital. Purely Islamic economies may be built in mono-confessional Arab states. So far, only Pakistan and Sudan are the countries where the Shariat principles are fully implemented in their economies. Others try to combine different models in one or another proportion according to the religious configuration of their populations. However, it is difficult to have harmonious economies there in practice because of inhomogeneity of the population. However, I would argue that such difficulty can be overcome in future.

Various religions share a number of basic values. It is crucial for the economy that business activities are conducted according to a number of principles: honesty and justice in economic relations that are supported by any religion. Secondly, the current financial markets (credit, stock and currency ones) are prone to high risks, instabilities and crises that undermine credibility among the participants of the conventional financial system. There is a demand for new, alternative banking services. It's not surprising that an increasing number of people is more interested in the Islamic banking, shares, lease and insurance.

These days not only the Moslems but those of other faiths prefer the Islamic financial institutions. The Islamic banking provides its services for the

people in England, Germany, France, Malaysia and some other states regardless their religious views. Their deposit basis has been strengthened due to enhanced confidence among the general public, their stability and overall quality of services.

The attitude of business towards the Islamic banking and finances and whole economy is of fundamental importance. Companies are more interested in investments than in borrowings because they have to pay interests. Integration into production is a key factor of the development of the Islamic economic system that is established on a firm moral basis. All the other economic models have no such unique feature. At its core, the Islamic economy is based on mutual trust between investors (banks and other financial institutions) and companies. There is no room for suspiciousness, foul play and corruption. Everything should be clear, honest, just and transparent. All healthy forces of the society must share these qualities to confront negative developments of social and economic nature. Besides the business community, civil society together with governments must make considerable efforts to adhere to the Islamic principles in the economy and finances. In the long run, the popular support voting with their money for the Islamic institutions and for just assessment of its values will be of crucial importance.

Trustful and partnership relations between businesses and banks will create the possibilities for interest-free lending to develop the real sector of the economy, better competitiveness of companies and reduction in the prices for goods and services. That may prompt respect from the non-Moslems for the Islamic values and contribute to fostering the true perception of Islam and, therefore, eliminate Islamophobia around the world. Better and trustworthy relations may help to counter radicalism and terrorism. Partnership between the West and the East may be established. Therefore, the Islamic finances and economy are to play a crucial role to build a new and better world.

The Shariat prohibits gaining any revenue from interests on loans, derivative securities and sales and exchange of currency. All these practices are beyond the law. In a society with the Moslem and non-Moslem population, the national economic system may be formed through the combination of the two models—the Islamic and conventional ones—acquiring the features of a mixed economy.

Commodity markets may function there along with the interest-free lending and particular kind of stock market without speculative constituent. There should be no currency market as such, but evidently there may be exchange offices with fixed exchange rates. To put it otherwise, in the financial sector, the notion of “price” is understood rather restrictedly as money is not considered as “goods” according to the Shariat.

There are two basic motivations within the mindset of people including those living in the East: individualism and collectivism. The behavior of an individual may be influenced by them both in various proportions, but both of them are present in a society and their ratio is more or less constant according to the moral philosophy, mentality and social environment.

The ambivalent nature of the mankind manifests itself in all kinds of social behavior; the financial sphere is not an exception. Thus, financial relations can be formed under the influence of the ethics as broadly defined, religion in particular. The Islamic financial system does not regard money as a good and therefore, it cannot be sold or bought, the loans issued are interest-free, any speculative activities with money are prohibited as well as the use of money for such purposes as the trade in alcohol, tobacco, drugs, gambling, entertainments. Money is used to meet individuals' own interests and to provide assistance and support to the relatives as well as the poor. To that effect, the compulsory tax “zakat” must be charged. A Moslem can lend their idle cash to one extent or another as an interest-free loan to any business they see suitable. Savings are required by the Islam. When the revenue of an individual exceeds these reasonable needs, the idle cash should not be accumulated in a “domestic bank. On the contrary, there should be constant turnover. This is the primal motivation for an individual to open a bank account. That is why the participants due to the dual purposes (income for themselves and for the borrowers) should opt for the two kinds of bank accounts: investment and credit accounts.

An economic system based on moral values is more able than the others to maintain simultaneously stable economic growth and social justice, to cease and reverse the polarization of the society and to narrow the income gap where the rich grow richer and the poor grow poorer. There is no

such a thing as poverty in the state of Oman, for instance.

A considerable number of developed economies, particularly those within the Eurozone and the US, experience an unprecedented social polarization amidst the present-day crisis that is responded by mass protests against the economic system where money moves from salaries to profits of the capitalists and top managers, from the pockets of the people with average and low incomes to the rich and super-rich people, from satisfaction of the spiritual needs to material benefits.

Unfortunately, misunderstanding and sometimes deliberate distortion of the very notion of interest-free lending in the Islamic banking are not rare. It is often said that the Islamic banks claiming that their loans are interest-free get their revenues anyway as average people do not differentiate the notions of a “bank rate” and “separation of risks and income (loss)”. In that way, the competitors of the Islamic banking try to divert the clients from their Islamic rivals. Therefore, “Islamic interest-free lending” must be introduced in full conformity with the Shariat and from the purely pragmatic point of view as well as short-term (up to one year) loans without interest payment. Long-term loans, to distinguish them from the short-term ones, should be called “investments” bringing commercial earnings from the separation of risks and profits. There are those who deny the very existence of Islamic finances because of its shortcomings of practices, functional problems, the poor qualification of the personnel and for other reasons. However, the challenges and imperfections do not mean that the term itself must be rejected. It is easier to give up than to solve the problems. However, a constructive approach may be found to prevail over nihilism.

Since the Islamic banks bear a function of gratuitous support to those who need cash (entrepreneurs), in addition to their purely commercial function, partnership relations with their clients are the only option. That implies the joint accumulation of investment and credit resources both of depositors and borrowers; therefore, they must provide various banking services and products as single packages. Their important feature is that the banks could aim limited resources to satisfy reasonable needs of individuals without diverting them for fostering various pernicious habits. Here, the Islamic finances have an ambitious function

to direct the economies and societies towards the creation of good and exclusion of evil.

The Islamic finances being based on the universal values of the mankind are attractive regardless of the ethnic or religious backgrounds of their clients. Honesty, readiness for mutual assistance and support, justice and business transparency are the key criteria to participate in the Islamic financing.

A modified model of the Islamic financing is possible. It will increase competitiveness of Islamic (short-term or long-term) investments as compared with those made within the conventional system. It seems reasonable to combine them with short-term interest-free lending. A single banking package to finance the real sector of economy and social projects may be formed therein. In the said practice the forms of financing of companies and their projects may differ according to the needs of the fund receiver. Still, unprofitable credit must remain an invariable constituent. Its share in the package of financial services and products, in our opinion, should be not less than 20% of investments. Thus, one may and must combine desires (interests) of the depositor/investor and the recipient of funds as they both have the same ambivalent nature of an egoist and an altruist simultaneously. The conventional finances do not take that into consideration; it is primary oriented towards the satisfaction of selfish and material aspirations, commodity fetishism. But the Islamic finances are more harmonious and humanistic.

Within the Islamic economic model, the economic interest of banks is ensured by combining the services rendered with unprofitable (interest-free) loans granted in various forms of a single package. In case of an effective management of the funds, revenue from the former should overlap the lack of such from the latter. Thus, the notions of “credits/loans” should not be understood as potential “revenue”. Lending within the Shariat is encouraged, but gaining any interest income is rejected as this contradicts the logic and moral premises of the Islamic finances based on the commandments of Allah. Unfortunately this unique nature of the Islamic finances and the opportunities they may provide is generally ignored. However, the Islamic finances may provide a new basis for economic thinking and behavior and, therefore, foster a new economy. There is still a chance for the world economy to incorporate alternative approaches and reemerge in a new, better format.

FDI and Kazakhstan's Investment Security

MERUERT SEIDUMANOVA

Kazakhstan is at present in need of an analysis of how foreign direct investment (FDI) impacts its investment security.

FDI is the most in-demand form of investment, one which helps implement large and important projects and introduce new technologies to our country. Since independence, maintaining a favorable investment climate and stimulating FDI inflows have been priorities for Kazakhstan's policy. To foster further economic growth in the industrial-and-innovation sector, the opportunities associated with FDI should be used to the maximum extent possible and the efficacy of processes to attract them should be enhanced.

FDI Market in Kazakhstan and Dynamics of Key Indicators

In 2007-2011 Kazakhstan attracted \$95.2bn in FDI. In the first quarter of 2012, the amount of FDI in Kazakhstan stood at \$5.9bn, up 11% year-on-year. FDI has been growing in a stable fashion throughout the 2000s and even the acute phase of the global crisis in 2008 did not affect its positive dynamics (Figure 1). According to the UNCTAD World Investment Report, in 2011 Kazakhstan ranked first in terms of FDI inflows among landlocked developing countries and second in the CIS [1]. As for the FDI Attraction Index *, Kazakhstan ranked seventh in the world in 2011 (fifth in 2010) **.

At the same time, FDI outflows from Kazakhstan in the period totaled \$32.4bn (Figure 1). In

2007-2010 this figure was increasing but in 2011, due to the stabilized economic situation and the launching of large investment projects in construction, trade and mining. FDI outflows fell by 25% year-on-year (Figure 1). The largest recipients of Kazakhstan's FDI are the Netherlands (\$21.4bn) and the UK (\$3.3bn); however, FDI inflows from these countries exceed FDI outflows in the period.

In addition, Kazakhstan is a leader in terms of accumulated FDI per capita, which amounted to 303,000 KZT in 2011 (Figure 2). The rate of per-capita FDI inflows in Kazakhstan is twice as high as in China and Turkey and 60% higher than in Russia. However, the growth in FDI attraction remains unstable and depends on world oil prices.

Therefore, the correlation between FDI inflows and outflows in Kazakhstan is being optimized and this helps maintain the country's investment security. Being one of the world leaders in terms of the growth in FDI inflows, Kazakhstan looks rather competitive. However, in 2007-2011 this growth was unstable since it was reliant on the developments in the world markets and oil price fluctuations.

A total of 116 countries invest in Kazakhstan. The ten largest investors account for 76.2% of all FDI inflows. The main investors in 1993-2011 were developed countries, including the Netherlands (24.1%), the USA (15.3%), the UK (7.7%), France (6.1%), Italy (3.9%), Canada (3.3%), and Switzerland (3%) (Figure 3) ***. The Netherlands' contribution was increasing year by year and accounted for almost 40% of all investment in 2011

* The FDI Attraction Index is the ratio of a country's share of global FDI inflows to its share of global GDP.

** In 2011 Kazakhstan's FDI inflows made up 1.3% of global FDI inflows.

*** The territories of the two main investors include offshore areas: the Antilles in the Netherlands and the State of Delaware, the U.S. Virgin Islands and the State of Wyoming in the U.S.

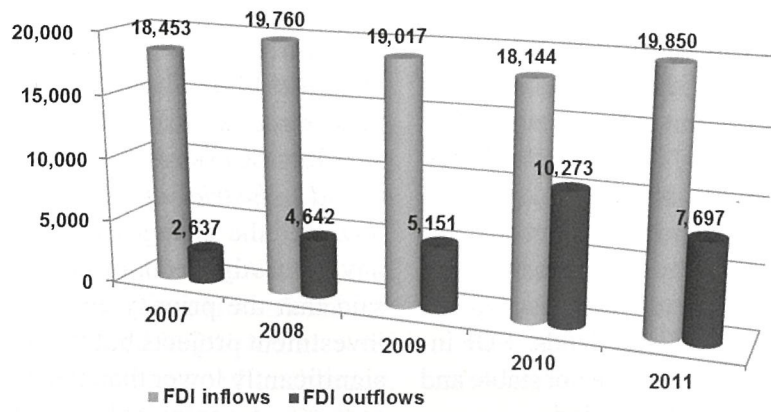


Figure 1. FDI inflows to and outflows from Kazakhstan, billion KZT

Source: Statistics Agency of Kazakhstan, www.stat.kz

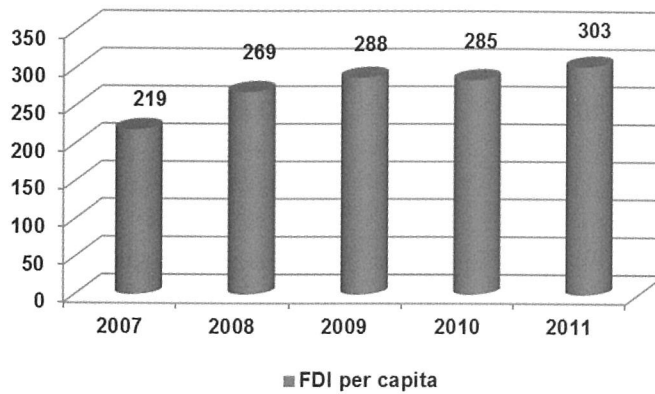


Figure 2. FDI inflows per capita, thousand KZT

Source: Statistics Agency of Kazakhstan, www.stat.kz

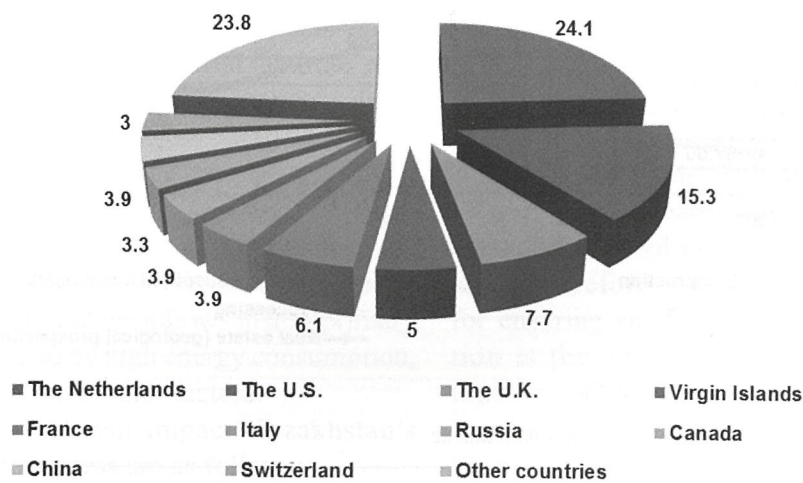


Figure 3. FDI inflows per countries in 1993-2011, %

Source: Statistics Agency of Kazakhstan, www.stat.kz

(Figure 3). Russia (3.9%), China (3.9%) and Korea (2.8%) also made significant investments in Kazakhstan's economy. Offshore countries (such as the Virgin Islands) accounted for an average of 5% in 1993-2011 but in 2007-2011 this decreased sharply from 13.4% in 2007 to 3.3% in 2012.

In 1993-2011 there were no significant changes in the terms of FDI inflows by countries but there was an increase in investment from the top ten investors, in particular the Netherlands. FDI inflows from the above countries were not stable and fluctuated significantly over the period.

The following sectors were the main recipients of FDI in 2007-2011: industries (53.2% of all investments in capital stock), transport and warehouses (18.0%), and real estate (9.2%). Among the industries, the mining sector received significantly higher amounts of FDI in the period compared to the processing sectors. In particular, the mining sector accounted for 30.6% of FDI inflows in 2007-2011, the processing sectors 10.5%, and the financial sector 4.9%. Since 2007 investment flows have become more diversified, FDI in the processing sectors increased gradually from 5.8% in 2007 to 14.4% in 2011, while investment in mining fell from 29.2% in 2007 to 17.7% in 2011.

The structure of FDI recipient sectors remained practically unchanged in 2007-2011 and this confirms that FDI inflows depend on the profitability of sectors. The structure of FDI inflows still fails to reflect the priorities set by the *State Program for Rapid Industrial and Innovative Development**, however the changes in their sectoral structure have already become noticeable. It should be said that the priority economic sectors do have investment projects but the investments there are significantly lower than the investments in the oil sector and geological prospecting. In 2010 the growth of FDI in non-primary sectors was for the first time higher than the growth of investment in mining.

The development of a favorable investment climate in Kazakhstan has been noted internationally. In the World Bank and IFC's Doing Business ranking, in 2012 Kazakhstan was 47th out of 183 countries, eleven places higher than in 2011. Kazakhstan is the leader in the CIS outpacing Ukraine and its Customs Union partners. In 2012 the World Economic Forum ranked Kazakhstan 51st in its Global Competitiveness Index (21 places higher year-on-year) and in 2011 the International Institute for Management Development's World

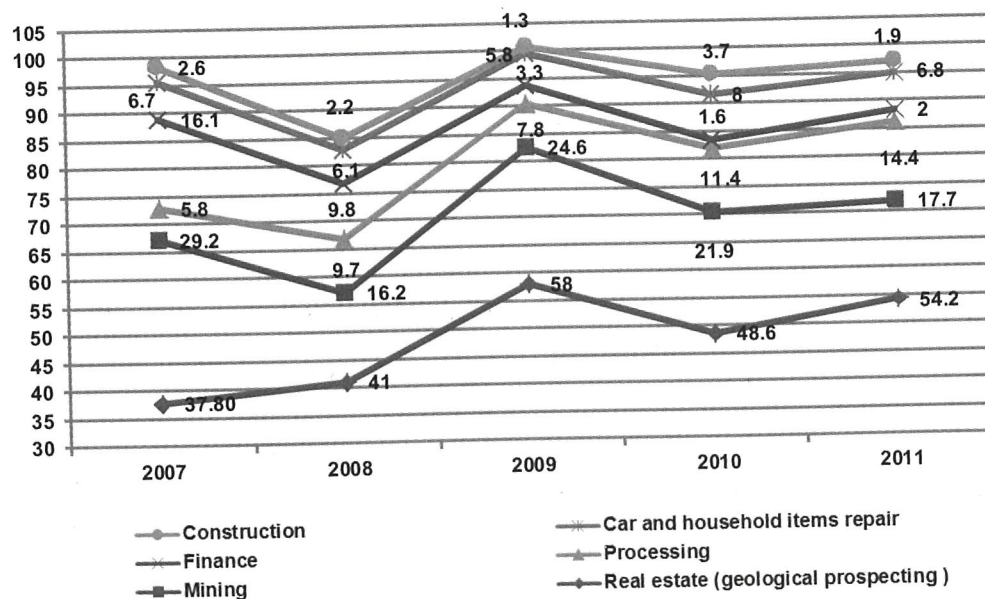


Figure 4. FDI inflows by sector, %

Source: National Bank of Kazakhstan, www.nationalbank.kz

* The State Program for Rapid Industrial and Innovative Development sets out a wide range of priority economic sectors: oil processing and oil and gas infrastructure, atomic and chemical sectors with a subsequent transfer to higher processing levels, engineering, construction, pharmaceuticals, agriculture, light industry, tourism, IT and communications, biotechnologies, alternative energy, space operations [2].

Competitiveness Center (Lausanne, Switzerland) ranked Kazakhstan 36th.

Kazakhstan's success in attracting FDI is attributable to its legal framework and state support. International experts praise Kazakhstan's Law *On Investment* as one of the best investment statutes in transition economies.

According to a survey by Ernst & Young, 35% of respondents believe that Kazakhstan's investment attractiveness improved in 2010-2011, 43% of those surveyed stated it remained unchanged, and 14% thought it deteriorated (Figure 5) [3].

Maintaining a similarly high rate of improvements in Kazakhstan's investment climate requires that a number of challenges be resolved. The first and most important one is to diversify the FDI sectoral structure. The extremely high investment in mining and geological prospecting is a risk for Kazakhstan's investment security because FDI depends on the country's natural resources. In addition, the concentration of investment in the regions with mining and heavy industries is associated with high environmental, social and other risks.

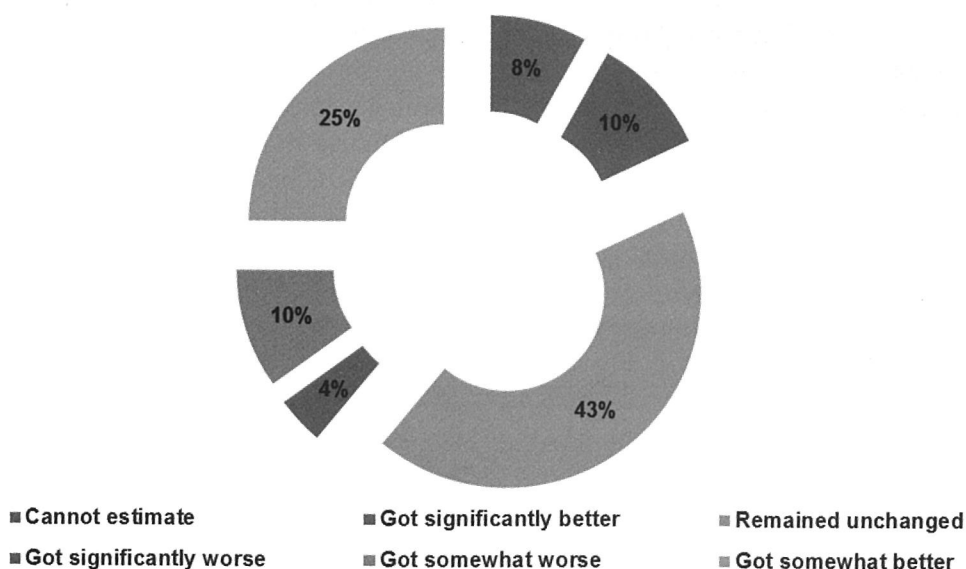


Figure 5. Investment climate changes in 2010-2011, % of responses

Source: Ernst & Young, *invest.gov.kz*

The diversification of FDI in Kazakhstan would help restore and renew its industrial facilities with new technologies, saturate the consumer market with high-quality and inexpensive domestically made products and shift from expanding exports of raw materials to increasing exports of competitive labor- and knowledge-intensive products. The need to diversify FDI was outlined in investment attraction programs, but the inflows in non-primary sectors are restrained by high energy consumption, expensive logistics and other factors.

The main factors that impact Kazakhstan's investment attractiveness are as follows:

1) *Infrastructural development*

The density of motor and rail roads in Kazakhstan is still low. In addition, land plots that are provided to enterprises often lack utilities. The survey by Ernst & Young showed that 19% of respondents believe the lack of infrastructure to be the main obstacle to investing in Kazakhstan. Therefore, the most important condition for ensuring stable FDI inflows and diversification is the advancement of the transport and logistics infrastructure as well as the Internet. Energy consumption should be also reduced. *. Transport infrastructure projects are one of the

* Energy consumption in Kazakhstan is 150% higher than the average for the OECD countries and 250% higher than the EU ratio due to the use of obsolete technologies in energy-intensive industries and the utilities sector and energy wasting devices in all sectors of the economy [4].

top priorities determined by *the State Program for Rapid Industrial and Innovative Development*. The completion of the Western Europe-Western China transit corridor and the Beineu-Aktau-Turkmenistan border railroad will help improve Kazakhstan's investment climate. In addition, significant efforts should be placed into the development of interregional and intraregional transport infrastructure. The adoption of the *Energy Saving Program* until 2015 and its successful implementation will also considerably contribute to Kazakhstan's investment attractiveness.

2) Regulations

Ernst & Young found that 53% of respondents felt that Kazakhstan's regulatory system is unattractive in terms of transparency and stability. The reasons for this are administrative hindrances (16%), political mindsets (8%) and corruption (7%). Improvements are possible through higher transparency, amendments to the investment laws, better administration of the regulatory system, and reduction in bureaucracy. We also believe that a system of investment/economic security should be created by imposing regulatory restrictions in order to protect the national economy and the state as a whole.

3) Non-primary Sectors Profitability

In order to diversify FDI inflows in the non-primary sectors, their rate of return should be comparable to that of the primary sectors. The state has taken the measures to improve conditions for investment projects in the priority sectors. Kazakh investors are provided with state support (preferences, benefits, project co-financing) that will help significantly reduce infrastructure development costs or enable them to use tax preferences in special economic zones. However, investment conditions in Kazakhstan have a room for improvement. It is recommended that Kazakhstan continues to advance investment conditions in the non-primary sectors by improving industrial-and-innovation infrastructure, which is used as a "window" for FDI inflows, technology and management expertise exchange.

4) Country's Image

A task force was set up in 2007 to make recommendations on the mechanisms to improve and advance the country's image abroad. The Ministry of Foreign Affairs has the International Information Committee and a national website

in twelve languages aimed at potential investors about Kazakhstan has been launched. There are several ways to enhance Kazakhstan's investment attractiveness; there should be more information on the country's economic achievements, positive assessments of its future perspectives, its favorable geographic location amidst the markets of China, Russia, Europe and the Middle East, content and results of *the State Program for Rapid Industrial and Innovative Development*.

5) Workforce Skills

Domestic and foreign experts believe that Kazakhstan needs to improve its professional education system. President Nursultan Nazarbayev is paying particular attention to development of the country's intellectual human resources. It was his initiative to set up the Bolashak International Program to educate students in the world's leading universities and open the innovative Nazarbayev University. However, it takes time to make the changes in the labor market become noticeable.

All of the above issues should be dealt with simultaneously. Without a comprehensive approach it will be impossible to maintain investment security and improve investment climate as all these factors have different vectors.

An analysis of FDI statistics allows us to conclude that their amounts and inflow rates satisfy the country's current demand for investment and do not pose a risk to its investment security. Kazakhstan has high rankings in terms of FDI attraction but the sectoral structure needs to be diversified. The investment security risk is associated with FDI being primarily directed in the mining sectors and with the barriers that impede sectoral diversification and FDI attraction. Overcoming these barriers is only possible if the investment climate is improved. Investment security depends on a range of sociopolitical, organizational, economic and regulatory factors that determine the conditions for investment activities.

The main obstacle to attracting FDI in the non-primary sectors and, accordingly, ensuring Kazakhstan's investment security is the gap between the interests of the state and those of foreign investors. Kazakhstan needs to restore and renew its production facilities, introduce new technologies, saturate consumer market, restrict imports, develop and restructure its export, and make a shift from

expanding the exports of raw materials to increasing exports of competitive labor- and knowledge-intensive products. Foreign investors are interested in developing production based on the country's rich natural resources, skilled and inexpensive labor and scientific and technological potential.

Therefore, Kazakhstan faces a difficult task: it needs, on the one hand, to attract foreign capital by offering certain incentives to investors and, on the other hand, introduce an economic regulation system that will help the state to achieve its social goals.

Experts believe that the FDI structure will remain unchanged in the next few years. As in

previous years, investment will be primarily directed into geological prospecting and exploration as well as oil and gas production. This is because in recent years the mining sector has provided the highest rates of return and the shortest payback periods for FDI. In addition, experts expect that FDI amounts will grow in near future*.

Kazakhstan needs, in the first place, investment that will bring new technologies and know-how in the research and engineering spheres. This should become a decisive factor to boost industrial-and-innovative activities in the country and increase the living standards.

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* An increase in FDI is associated with the commencement of commercial oil production in Kashagan.

The Asian Development Bank, World Bank and European Bank for Reconstruction and Development in Central Asian Geopolitics

ANNA GUSSAROVA

In the contemporary world the international financial institutions (IFI) pursue the idea of globalization, which makes them automatically interested in Central Asia as an important geopolitical region. However, a peculiar trait of the IFI is that, to some extent, their choices in the key directions for their work are limited. The amount individual member states contribute into the multilateral development banks (MDB) determines the degree of influence they have on the decisions making on social and economic projects. The higher the contribution, the more opportunities the respective member state has to influence the MDB.

In the current context the global leaders such as the USA, the UK, Japan, France, Germany and China ensure that the IFI strategies primarily pursue their interests.

The largest world economies have developed their own strategies for Central Asia with the following general objectives:

- control over the raw materials of the region, primarily in the oil and gas sector;
- access to the strategic water and energy infrastructure;
- new transportation routes in accordance with the geopolitical priorities of great powers; and

- eliminating threats and challenges to regional security.

The Asian Development Bank (ADB)

The ADB is actively involved in a number of major energy and transport projects in Central Asia at national and regional levels. Its main beneficiary in the region is Afghanistan. The country is expected to receive \$1.2bn assistance from the ADB by 2016.

Transport

The ADB is involved in the construction of the CAREC 1, CAREC 2, CAREC 3 and CAREC 6 corridors, with the objective to form a multi-vector system of routes through Central Asia to the Asia Pacific, the EU and the Near East [1].

The Bank's projects include the first section of the Hairatan–Mazar-i-Sharif–Herat railway. The route – which was set in operation in March 2011 – has significantly increased cargo to Afghanistan. Moreover, it contributes to the development of inter-regional railway network in South and Central Asia.

Energy

One of the ADB's largest projects in energy is the construction of the Turkmenistan–Afghanistan–

Pakistan–India gas pipeline^{□*}. The pipeline will have a length of more than 1,735 km and connect Turkmenistan with Afghanistan (Herat and Kandahar), Pakistan (Quetta and Multan) and India (the town of Fazilka on the border with Pakistan). The estimated construction cost is approximately \$8bn. Since recently, Gas Authority of India Ltd. (GAIL) has been supervising the pipeline's security [2].

It should be noted that Russia is noticeably interested in the project. So is the USA as the pipeline will enhance Afghanistan's status as a transit country and provide access for Turkmen gas to South Asia), Large companies such as Gazprom EP International, Sroytransgaz, INTER RAO UES, Power Machines and Technopromexport have repeatedly expressed their willingness to take part in the international consortium.

In addition, the ADB is providing assistance to the CASA-1000, a major project to construct power transmission lines in Tajikistan. In order to develop the regional trade in electricity between Kyrgyzstan and Tajikistan and between Pakistan and Afghanistan, the ADB has invested \$21.5m in the construction of the 200 kV Sangtuda–Puli Khumri transmission line^{**}.

It is worth mentioning that the ADB's operations in Central Asia and Afghanistan are primarily governed by the interests of its key member countries. Similarly to the World Bank's portfolio, implementation of the ADB's project in Central Asia correlates with the main priorities of the US New Silk Road Strategy.

China is another major participant in the ADB. The Chinese influence on the ADB's investment policies can be seen in transport communication.

The construction and reconstruction of motor roads such as Osh–Sary-Tash–Irkeshtam, Sary-Tash–Karamyk and Bishkek–Torugart facilitates considerably China's trade with Central Asian countries and enhances its economic position in the region.

The World Bank

The World Bank finances major transport and energy projects in Central Asia in the framework of the CAREC^{***}□ and CASA-1000^{□□****} programs.

Kazakhstan is the main recipient of the funding from the World Bank among other states of Central Asia. Afghanistan is the leader in terms of the projects implemented that are, in the most cases, aimed at conducting financial and administrative reforms in the country. In Turkmenistan, there have not been any projects realized since 2008, however the measures are being taken to deepen partnership with the civil sector of Turkmenistan [4].

Transport

The World Bank is taking part in developing the sections of the regional transport corridors in Kazakhstan and Kyrgyzstan in the framework of CAREC1b^{*****}□□□ and 6b^{*****}□□□□ projects. The WB, IDB and EBRD jointly have invested in reconstruction of the Osh–Batken–Isfana road within the CAREC. The primary goal is to ease the transport blockade of Tajikistan imposed by Uzbekistan due to numerous problematic issues in the relations between the two countries.

In October 2010 the IBRD (branch of the WB) and Turkmen government signed the document stipulating the measures to repair the Caspian port of Turkmenbashi. This project will require ap-

* The framework document to promote the project is the Ashgabat Interstate Agreement of the State Parties on the Commencement of the Practical Implementation of the TAPI project signed in late 2010. However, it was only on May 23, 2012 when the first gas supply contracts were signed, in accordance with which in 2018 this pipeline will supply 90 million cu m of gas a day. India will receive 38 million cu m, Pakistan 38 million cu m and Afghanistan 14 million cu m. This 30-year agreement was made by Turkmen gas with India's GAIL and Pakistan's InterStateGasSystems.

** The project is intended to improve power supplies and make it possible for Tajikistan to export up to 300 MW of excess electricity annually generated during the summer months. The length of the 200 kV transmission line is 118 km in Tajikistan and 163 km in Afghanistan [3].

*** The Central Asian Regional Economic Cooperation (CAREC) is a partnership of ten countries (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, China, Tajikistan, Turkmenistan and Uzbekistan) and six multilateral institutions (ADB, WB, EBRD, IDB, IMF and UNDP).

**** The Central Asia/South Asia Electricity Transmission and Trade Project (CASA 1000) envisions the construction of three power transmission lines from Kyrgyzstan and Tajikistan to Pakistan through the territory of Afghanistan and the sale of 1,000 MW of electric power between Central and South Asia.

***** CAREC 1b: the corridor connects the roads of China and Russia into a single infrastructure route through Kazakhstan where it transits via Almaty, Shymkent, Kyzylorda and Aktobe.

***** CAREC 6b: Orenburg–Kyzylorda–Shymkent–Tashkent–Samarkand–Termez.

proximately \$62m [5]. The WB's participation in the project is primarily prompted by political and military motivations, namely strengthening and expanding the Northern Distribution Network to withdraw ISAF troops from Afghanistan.

Energy

The WB has assisted Central Asian countries in the implementation of their larger national energy projects in particular in Uzbekistan:

- water supply management projects aimed at increase and maintenance of higher quality water to Syrdaryo Province;

- construction of the 500 kV power transmission lines to connect the Talimarjan thermal power plant with the Sogdiana substation. The project will help to eliminate power shortages in the Samarkand and Bukhara regions of Uzbekistan and increase electricity supplies to Afghanistan.

The WB is paying particular attention to the construction of the dam at the Rogun hydropower plant that of particular importance for the Tajik economy. The WB participation the project has made Rogun an important component of the CASAREM*[□] that will reduce power shortages in Tajikistan during the winter months and ensure power supplies to Pakistan and Afghanistan in order to help them partially cut shortages as well.

Disagreements over the construction of the dam have arisen as a result of the competition for the energy markets of Central Asia, Afghanistan, Iran, Pakistan, and India among Russian, American and European actors. When the Rogun is set into operation and it shall be incorporated into the CASA-1000 project. Tajikistan and Kyrgyzstan will benefit from the export of cheaper and more environmentally friendly electric power and will thereby improve their political standing. Uzbekistan, which is trying to block the project, may lose its competitive advantage while trying to expand throughout the electricity market of Afghanistan and South Asia.

The WB has postponed the disclosure of the results of its comprehensive inspection aimed at technical and economic assessment of the plant until May 2013 because of the complicated rela-

tions between Tajikistan and Uzbekistan [6]. At the same time, the WB stated it was ready to design a number of alternate projects for the Tajik government as a form of compensation for forced delay in the Rogun construction. However, no practical advance has been made in this particular direction so far.

The WB is working proactively in Central Asia in the framework of the concept sponsored by the USA known as *Greater Central Asia Partnership for Afghanistan and Its Neighbors*. The concept pushes for promotion of trade integration among Central Asia, Afghanistan and South Asia through improvement of the customs and cross-border procedures, reduction of the non-tariff barriers and, subsequently, formation of an open market. Similarly to the ADB projects above, *the New Silk Road* of the WB is to enhance the presence of the USA in the region for long-term perspective.

To strengthen the US position within the Greater Central Asia, the WB supports Uzbekistan and Tajikistan being the principle for the Northern Distribution Network delivering NATO supplies to and from Afghanistan. Washington backs Tashkent with a view to maintaining its military presence in the region. However, USA are also seeking to involve Dushanbe in the Afghan settlement in case their relations with Uzbekistan worsen. This implies that Washington has not yet chosen which of the Central Asian states will be its strategic partner in the region. The ultimate decision will probably be made just before the planned withdrawal of ISAF troops from Afghanistan in 2014.

The European Bank for Reconstruction and Development (EBRD)

The EBRD's operations in the region are based on the principle that every Central Asian country has a priority sector for development. For example, the cooperation with Kyrgyzstan and Kazakhstan is focused on the municipal infrastructure and energy sector. Whereas the projects implemented with Tajikistan deal with the financial institutions and infrastructure. As for Turkmenistan, the major emphasis is made on the corporate sector, namely agriculture and food industry as well as IT and communications.

* Central Asia/South Asia Regional Electricity Market project, which comprises Kyrgyzstan, Tajikistan, Pakistan and Afghanistan.

Transport

Developing the transport infrastructure is one of the EBRD's key areas of operation in the region. The Bank is a partner in the CAREC and has provided funds to Tajikistan and Kyrgyzstan to fulfill the projects. A total of \$62m was granted to improve the motor road connecting Dushanbe with the Uzbek border (CAREC 2b□) and other \$35m will be spent to reconstruct the Burgandy–Batken section of the Osh–Batken–Isfana corridor (CAREC 3a□) [7].

These routes to be built under the CAREC are also part of the European TRACECA with its ultimate goal to develop the transport networks between Europe and China. This is where the Bank's and the EU's interests are the same.

The EBRD's operations correlate with the EU's interests as regards the consolidation TRACECA program and inclusion of a number of additional projects. The EU member states, via the EBRD, try to increase TRACECA's efficacy and enhance its performance in the framework of the *European TRACECA Development Strategy until 2015*, the main task is to establish a sustainable multimodal transportation infrastructure with its gradual integration with the Trans-European Transport Networks.

Energy

In the energy sector the EBRD provided \$65m in order to fulfill a number of tasks, namely reconstruction of the Shardara hydropower plant and the Sogra combined heat and power plant, increase output and reduce of harmful carbon emissions. Besides, the Bank spent \$156m on the project to reconstruct the 200 kV Central Secondary Substation–Osakarovka high-voltage line and maintain steadier power supplies to Astana and beyond [8].

In the recent time, the Bank has been increasingly interested in renovation the facilities of the Turkmenbashi port, as it is an important component of both TRACECA and INOGATE programs, which are intended to lessen Europe's energy dependence on Russia. This is another example of

how the Bank policies are in compliance with the EU's geopolitical interests.

As Brussels wants to reduce Europe's energy dependence on Russia, the EU will support the EBRD's intention to focus on the investments in Kazakhstan and Turkmenistan's oil and gas sectors. The Bank has already provided funds to DGT Logistics Turkmenistan, one of the country's leading private logistics operators in the oil and gas sector, to purchase cars and handling equipment.

The EBRD plans to take part in renovation of the drilling equipment for the oil wells in Southern Kazakhstan. It is also interested to invest in Petrolinvest S.A. and TOTAL's shares in order to speed up oil and gas exploration in the Caspian Sea.

Overall, the global powers use multilateral development banks as means to increase their pressure and influence on regional states and expand the opportunities to pursue their national interest to the maximum extent possible.

The USA

Washington and its closest NATO partners intend to consolidate their presence in the region through *the New Silk Way Strategy* to be implemented following the withdrawal of the US troops from Afghanistan in 2014.

China

China is trying to get access to Central Asian raw materials and commodities markets. It is investing in transport, communication and energy projects in order to strengthen its own trade and economic potential. The Chinese government is also considering the possibility of building a number of motor and rail routes and pipelines through Central Asia westwards to the Caspian region, the Persian Gulf, the Near East and Europe.

The EU

In order to maintain its energy security, the European Union is trying to make its TRACECA and INOGATE programs more efficient with a particular focus on the expansion of its ties with the oil and gas companies of Kazakhstan and Turkmenistan.

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