

CONTENTS



THE KAZAKHSTAN INSTITUTE
FOR STRATEGIC STUDIES
UNDER THE PRESIDENT
OF THE REPUBLIC OF KAZAKHSTAN

Quarterly since 2003

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under the President of RK

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Translation by **TANDEM Ltd.**

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The magazine registered
with the Ministry of Culture, Information
and Public Consent
of the Republic of Kazakhstan
on January 24, 2003.
Registration certificate № 3529-ж

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Printhouse of the
PA "School of XXI century"
Address: 23 Brusilovsky St., apt. 60,
Almaty, 050009, Republic of Kazakhstan

Circulation: 250 copies

REGIONAL SECURITY

- Akibiro Iwashita*
Experience of SCO in Addressing Regional
Border Disputes3
- Anar Khamzayeva*
Denuclearized Central Asia: An Example to Follow6
- Timur Shaimergenov*
Central Asia and the Caspian Region: Regional Geopolitics
and Global Energy Security.....8

INTERNATIONAL RELATIONS

- Murat Laumulin*
Multi-vectored Policies in Central Asia16
- Takeshi Yuasa*
Constructing Bilateral Partnership with Kazakhstan under
the Framework of Central Asia Plus Japan Dialogue24
- Dina Sharipova*
The Emergence of Islamic Movement of Uzbekistan:
Theoretical Explanations26

ECONOMICS

- Ules Nysanbek*
The Financial Sector of the Republic of Kazakhstan: Present
State and Development Tendencies32
- Marat Naribayev*
The External Economic Activities of Kazakhstan
in Central Asia: The Potential and Prospects
of Regional Cooperation38

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Experience of SCO in Addressing Regional Border Disputes*

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INTRODUCTION: WHY EXPERIENCE OF THE SCO SHOULD BE ADDRESSED?

Some recent incidents around the SCO sound negative tone for the West mind. The Sino-Russian joint military exercise conducted in last August is sometimes depicted as an “anti-US coalition” between China and Russia. The SCO summit latest decision’s on a “foreign army moving out” from the SCO sphere is interpreted as the SCO’s common will initiated by Russia and China to blockade the US presence over the Central Asia. Some Western analysts consider the SCO’s orientation has been more toward to an anti-US movement step by step. Is the SCO a tool of “anti-US bloc” organized by Russia and China?

It is easy to dispel such kind of not appropriate understanding of the SCO. The Sino-Russian joint military exercise was cautiously downsized particularly by Russia’s initiative. China repeatedly makes an emphasis on the SCO’s utility in economic terms. The SCO decision on limiting the US presence over the Central Asia was unexpectedly demanded by President Karimov, while Russia and China sought to cool down the terms of the declaration. Nevertheless, a groundless misunderstanding of the SCO was often repeated. One of the reason for it is that the spirit and development of the SCO was ignored. Therefore, the experience of the SCO should be addressed for starting the discussion.

THE SCO SPIRITS AND DEVELOPMENT

The SCO was born in follow with a “Shanghai process” on basis of the framework as a “Four (Russia + Three Central Asian countries) plus One (China)” on the former Soviet-Sino border cooperation. The SCO predecessor, the so-called “Shanghai Five,” was born as a forum to discuss CBM and the demarcation issue in the former Soviet-Chinese border region under a Russo-Chinese co-initiative. The border issue is a historic one, dating back to period centuries ago. The Soviet-Chinese border, consisting of a 4300-kilometer eastern section from the eastern edge of Mongolia to the Tumen River of North Korea and a 3200-kilometer western section from the western edge of Mongolia to the Tajik-Afghanistan border junction, was delineated mainly by the Russian empire and the Qing dynasty in the late 19th century.

The Chinese side claimed a loss of over one million and half square kilometers of its “own territories” on the basis of “unequal treaties” between Russia and China in the 19th century, which later caused some Soviet-Chinese military conflicts such as the Damanskii Incident in 1969. In the late

1980’s, when the Soviet-Chinese reconciliation was brought about by Gorbachev’s “new thinking” initiatives, both sides agreed to build a measure to prevent would-be military conflicts and resolve territorial issues in the border area. The former led to an agreement on the leading principles of armed reduction and confidence-building in the military field on the border in April of 1990, the latter to an 1991 agreement, which resolved 98 % of the eastern border between the Soviet Union and China, with two disputed islands, e.g. Xeixiazi and Abagaitui, untouched.

After 1993, the “Four plus One” formation was put into play for two regular committees; for confidence-building and arms reduction and for joint boundary demarcation. The first fruit borne by the committee for confidence-building and arms reduction was the Shanghai agreement on confidence building in the military field in the border area in 1996. All concerned states agreed to stabilize their border areas by establishing non-military zones and promising to exchange military information. The overall effectiveness was dubious, but it did represent a symbolic step toward peace and cooperation on the former Sino-Soviet border, which had been historically plagued by severe military conflicts and a deep-rooted mutual distrust. Since then, “Shanghai” has acquired the special meaning of “stability and trust” among the five member countries.

In February 1997, when leaders of Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan met in Moscow and signed an agreement on mutual reduction of armed forces in the border area, the level of “stability and trust” between the concerned parties was upgraded by the agreement for the limitation of arms and personnel within the 100 kilometer zone of the former Sino-Soviet border and the mutual inspection of it. The name “Shanghai Five” became popular just following the second summit. The “Four plus One” formula advanced the border demarcation process on the western border.

Then, the “Shanghai process” have just accreted. It brought about a cooperation organization and widened its membership, including Uzbekistan as a full-fledged member in 2001 and Mongolia, India, Pakistan and Iran as an associate member in the last years. Of course, the Shanghai Cooperation Organization reached another dimension: security cooperation vis-a-vis a kind of transnational “evil” beyond the border and economic regional cooperation, but the original spirit of the “Shanghai process” has been kept and developed. Now see the SCO methodology for defusing the border issue (on the details in the reference paper).

* The article was presented by the Author at the workshop: «Kazakhstan - Japan Cooperation: Present State and Prospects», December 5, 2006, Almaty, Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan.

THE SCO METHODOLOGY FOR RESOLVING THE BORDER DISPUTES

(1) THREE STAGE APPROACH

1) A negotiable border should first be determined with talks on the disputed territory coming later; 2) A border agreement it to be signed and implemented except in the disputed territory; 3) On the remaining disputed territory, the concerned parties should continue negotiating in good faith. The approach was gotten a birth in the late 1980s, when the border negotiations were resumed under a Mikhail Gorbachev - Deng Xiaoping initiative. The Soviet Union and China had a terrible memory over the 1969 military clash on Damanskii Island. The clash was caused by harsh disputes on belongings of Heixiazhi Island near Khabarovsk. Therefore, both side agreed to the three stage approach because of escaping a deadlock in the most difficult places to be resolved.

How to resolve the most difficult places remained unclear, but the Soviet Union and China had found out the hard way how a minor despute could eventually break down the whole border negotiation process.

(2) "FIFTY-FIFTY" FORMULA

The "fifty-fifty" formula is a political judgment for resolving the territorial problem. Basically it suggests to divided a disputed area half and half. I doesn't necessarily mean that disputed territories must be partitioned in equal halves, however. The formula also attempts to balance each country's interests.

This formula was accidentally born in 1997. Then, the Primor'e Krai in the Russian Far East resisted to transfer a 300 hectare in the Khasan region (closed to a Sino-Russo-Korean triangle border point), which was confirmed to hand to China in the 1991 agreement. A possibility of breaking up the 1991 agreement appeared in the mid-1990's and brought uneasiness about the border stability for both Russia and China. China and Russia unexpectedly agreed to divide the disputed territories irrespective of juridical mannerisms. Some 140 hectares would remain under Russian control with the rest going to China. Then, some important places for Russia, including a Russian veterans' cemetery, are left in Russian hand. Not only Moscow and Beijing but also the Primor'e declared the outcome a victory in November of 1997 when President Yeltsin made a "win-win" statement following the conclusion of the completion of the 1991 agreement with President Jiang Zemin in Beijing

The formula was also applied for the remaining disputes between Russia and China out of the 1991 agreement. The breaking news was made public in October 2004 when Putin and Hu Jintao declared the finalization of all disputes over the border. They again adopted the "fifty-fifty" formula for resolving the remaining disputed islands. Both Heixiazhi Island and Abagaitui Island were partitioned off in almost equal halves: 171 square kilometers of Heixiazhi were handed to China, while 164 remained in Russia. 38 square kilometers of Abagaitui were partitioned off to China while the remaining 24 went to Russia. The balance of interests was also counted in. For example, a farm, dacha, church and some military hardware on Heixiazhi Island would remain under Russian control while the Kazakevichevo Channel of the Amur River would be totally under Chinese control. A water reservoir for local residents on Abagaitui Island would remain in Russia while China would retain a greater area of land. The joint statement made note of the formula's applicability to other cases involving territorial disputes. The reason is simple: the

formula was limited not only with Sino-Russia relations but also developed within the SCO framework.

(2) A CASE FOR SINO-CENTRAL ASIAN RELATIONS

The negotiations over the former Sino-Soviet western border had a basis for applying the three stage approach as well. The western part of the border after the collapse of the Soviet Union was divided into four sections – the 50 kilometer Sino-Russian border, the 1,700 kilometer Sino-Kazakh border, the 1,000 kilometer Sino-Kyrgyz border, and the 430 kilometer Sino-Tajik border.

China and the three Central Asian countries succeeded in signing a border agreement, accomplishing the second stage of the negotiation process. In 1994, the Sino-Kazakh border were agreed upon, with two sectors of the latter, Shagan-Oba and Saryshilde, remaining undecided. Sino-Kyrgyz border negotiations begun in 1992, and at the time, it had had five disputed sectors, as mentioned before, four of which were resolved in the 1996 agreement. However, a sector of territory in Bebel was hotly debated. The Sino-Tajik border negotiations remained in deadlock for a long time. Other governments seemed to have little room to compromise over the so-called "twenty thousand square kilometers," or one-seventh of all Tajikistan territories, on the Pamir claimed by China. The only section covered by the agreement in 1998 was supposedly Karazak and Markansu near the Kyrgyz-Sino-Tajik joint border point. The so-called "Pamir" problem remained untouched.

The solution was again found in the "fifty-fifty" formula. In 1998, when the third "Shanghai Five" summit was held in Almaty, they finally resolved the Sino-Kazakh supplementary agreement. The results of the Kazakhstan case are as follows: 940 square kilometers - two portions of the disputed territory, Shagan-Oba and Saryshilde -- were partitioned off following the "fifty-fifty" formula. 56% of the disputed territory was given to Kazakhstan while the rest went to China. The final resolution of the Kyrgyz-China territorial disputes also applied the "fifty-fifty" formula in the Bedel region, with 70% of the territory remaining in Kyrgyzstan while the remaining 30% (950 square kilometers) going to China.

Jiang Zemin and Emomali Rakhmonov signed a supplementary agreement on the border issues between China and Tajikistan on May 17, 2002. It is difficult to confirm the actual content of the agreement because none of the Tajik and Chinese media reported the details. Though the deal remained concealed, it was undoubtedly a "mutual compromise" which both sides could find acceptable by dividing the disputed territory following the "fifty-fifty" formula.

The SCO method created by Sino-Russian deals have been widened and elaborated in Sino-Central Asian negotiations on the border. It sounds a main stream of defusing the Eurasian border issue. Vietnam and China recently adopted the "fifty-fifty" formula for resolving a border dispute and jurisdictional issues over land in the Tonkin Bay. India and China have also accelerated the negotiation process over disputed territory in a similar way. Japan and Russia has a chance to apply the method to defuse their long-time frozen territorial issue if they sincerely hope so. The SCO spirit and experience on the border issue are a undoubtedly proud matter to be emphasized.

Conclusion: Cooperative Dynamics beyond the Border
The benefits after resolving the border issue are much more than imagined before. It could be explained in the two

different dimension: a state-regional and a border-regional. The Sino-Russian partnership on the state-region level that has rapidly developed seems not be mentioned. Without defusing the border issue, who could proceed any big scale joint military exercise?

The Central Asian states and the region follow. Owing to stability and resolution on the Sino-Central Asian border, both China and the Central Asian states began to enjoy a new benefit. China and Kazakhstan and China and Kyrgyzstan signed a friendship treaty just after finishing the border issue. For China, it means a peaceful area extends west beyond Siberia and the Russian Far East. Defining the border made China's security for so-called "terrorist, separatist and extremist" activities against Xinjiang Uyghur. In summer of 2003, the PLA conducted a joint exercise in Kyrgyzstan. For Central Asian states, a cooperation with China gives a big chance particularly for a "small" country. As a price of peace and stability in the region, China helped Kyrgyzstan and Tajikistan so much. Tajikistan successfully completed withdrawal of Russian guards from its border vis-a-vis Chineta just after the completion of the border demarcation. It made Tajikistan less dependence on Russia. As a result, Russia was obliged to assist more than two billion dollars to Tajikistan to keep its influence over Tajikistan. For Uzbekistan, a member state, which has no border shared, begin to enjoy benefits of regional stability on tight control against the "separatist" and of regional cooperation as a Kyrgyz transit from/to China. The Sino-Central Asian partnership has been forward step by step despite of a "negative psychological barrier" existing between China and Central Asian states.

Second, the border area cooperation itself has dramatically developed. On a Sino-Russian border region, there are numerous and rapidly developing border points particularly since 1997 when the 1991 agreement was implemented: such as Mishan - Turii Rog on Lake Khanka, Hulin - Markovo on the Sungacha River, Raohe - Bikin

on the Ussuri River close to Damanskii (Zhenbao) Island. As on the Amur River Fuyuan - Khabarovsk, Tongjiang - Leninskoe, Mingshan - Amurzet, Qike - Poiarkovo, Li-anyin - Dzhallinda, Luoguhe - Pokrovka and on the Argun River, Shiwei - Olochi (beside "old" border points on the Sino-Russian border, e.g., Suifenhe - Pogranichnyi, Heihe - Blagoveshchensk, Manzhouli - Zabaikal'sk). Thanks in no small part to resolving the two remaining disputed places in 2004, Wusuzhen - Kazakevichevo close to Heixiazi Island and Erka - Abagaitui beside Abagaitui Island, could soon have a similar potential for development. Without resolving the disputes and boosting mutual confidence on the border, how could anyone seriously consider constructing a pipeline over the Amur River?

This remains true for Sino-Central Asian relations. A soon to be built oil pipeline from Kazakhstan to Xinjiang Uyghur of China is planned to be laid down through Alashankou, close to a battlefield between Soviet and China forces in 1969. This place is also next to Saryshilde, a former Sino-Kazakh disputed area. With confidence measures introduced and border disputes defused, such an enterprise could be realized. Irkeshtam Pass for Kashgar was opened in 1998 after a territorial dispute in Nura Village was resolved following the finalization of the 1996 Sino-Kyrgyz agreement. Kyrgyzstan and China conducted joint exercises on Kyrgyz territory in 2003 after the ratification of the 1999 supplement agreement. In May 2004, Tajikistan opened a customs in Murgab on the Pamir. This was the first direct route to China. All of these events were realized after the dispute.

As well as the state-region level, the SCO experience show a enough example to develop cooperative dynamics over a former disputed area on the border. As the SCO spirit and experience were widen, a possibilities for future regional collaboration to the West and South Asia could follow the dynamics.

Denuclearized Central Asia: an Example to Follow

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The ongoing diplomatic negotiations over Iran's suspect nuclear program make one ponder the fate of the global non-proliferation regime. Most observers and practitioners call for the urgent need to address prevailing non-proliferation challenges and give a fresh impetus to the stagnating nuclear policies of the international community.

In such a context, a new important development has recently taken place in Central Asia – a region that has been in a spotlight since the launch of the US-led antiterrorist campaign in Afghanistan. On September 8, 2006 the foreign ministers of the Republics of Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan gathered in the city of Semipalatinsk and became signatories to a treaty establishing a Central Asian Nuclear Weapon-Free Zone (CANWFZ)¹.

The creation of such a zone is very important for a region that was once home to thousands of nuclear weapons and a site of prolonged nuclear tests during the Soviet era. The new treaty forbids the development, manufacture, stockpiling, acquisition, or possession of any nuclear explosive devices within the zone. Peaceful uses of nuclear energy are permitted under enhanced safeguards of the International Atomic Energy Agency (IAEA). It will be the fifth such nuclear weapons free zone in the world, along with those created in Latin America, Southeast Asia, the South Pacific, and Africa.

On February 27, 1997 the five regional republics signed the Almaty Declaration, stating their intention to make Central Asia a territory free of nuclear weapons. The driving forces behind the states' collaborative decision to give their region such an important status are primarily security-related. Despite the fact that much has been done in the region to secure highly enriched uranium and plutonium-fissile material that can be enriched to weapons grade, there is an enduring danger that those materials can still be subject to theft or diversion.

Such concerns gain a fresh impetus especially after the events of 9/11 and the subsequent anti-terrorist campaign in Afghanistan. Central Asia is in close geographical proximity to those countries that have become safe heaven to terrorist organizations that may seek to gain access to state storage areas of fissile materials; this is also a case with the indigenous terrorist group—the Islamic Movement of Uzbekistan. Under the terms of the new treaty, however, the states-signatories will have to meet enhanced IAEA safeguards of their nuclear

facilities, hence making acquisition of nuclear materials by terrorists a difficult venture.

It must be remembered that Central Asia borders on two nuclear weapons states - Russia and China - which along with the US, are seeking to strengthen their presence in the region. Thus, the reintroduction of nuclear weapons into the region must be prevented at all cost. Furthermore, the creation of the nuclear free zone is an opportunity by the Central Asian states to bring the world community's attention to their acute environmental problems – the result of the extensive Soviet nuclear tests carried out on their territories.

Of the five regional states, the case of Kazakhstan is of particular importance as a success story of a country that has made significant strides to promote non-proliferation in the region. Its city of Semipalatinsk has been especially chosen as a venue for the signing of the treaty, as it once was the world's second-largest nuclear testing facility. It was the site where approximately 500 Soviet nuclear tests were conducted in the years 1949-1989 that have contaminated vast areas of land and affected thousands of human lives.

In 1991 the President of Kazakhstan Nursultan Nazarbayev signed a decree prohibiting any nuclear weapon tests on the territory of the country and closed down the test range. Moreover, Kazakhstan was left with a huge stock of nuclear arsenal—the world's fourth largest. Hypothetically, Kazakhstan could have become one of the global nuclear superpowers. Yet, through a process of multilateral negotiations, Kazakhstan voluntarily returned all nuclear weapons to Russia and became a signatory to the Nuclear Non-proliferation Treaty (NPT).

Kazakhstan has chosen to become a nuclear weapon free nation – a status that “has strengthened [its] positions in the fight for nuclear disarmament, stability, peace in the world and global security. [Kazakhstan's] renunciation of nuclear weapons has become an important factor of [its] economic and political development, and [its] internal stability”, President Nazarbayev stated recently.² Indeed, the country has gained considerably by renouncing nuclear weapons and enjoying a status of a well-respected state in the international community.

Currently, the country plans to develop its own nuclear-energy sector. It appears justifiable for a country that is one of the largest uranium producers in the world to strive to build its own nuclear power plants as a way of developing alternative energy resources.

Whether or not Iran has similar intentions to use nuclear energy for solely peaceful purposes remains largely un-

¹ Central Asia: Towards a Nuclear-free world, Regional leaders sign nuclear weapon free zone treaty, staff report, 8 September 2006, at: http://www.iaea.org/NewsCenter/News/2006/central_asia.html

² Nursultan Nazarbayev, President of Kazakhstan “My Advice to Iran”, *Le Monde*, July 13, 2006

known. Clearly, the diplomatic talks over the Iran issue should continue more forcefully, avoiding the option of pre-emptive action, advocated by President Bush in his latest National Security Strategy document released in March of this year.

The case of Iran points to the need to improve the overall non-proliferation regime. The international community should work more rigorously on revamping the global security framework and addressing the root causes of nuclear proliferation. President Nazarbayev proposed to create a body under the auspices of the IAEA “which would ensure the supply of fuel for atomic power plants and manage the storage and processing of waste”, as a way to oversee any possible leaks of raw materials that could be used to create nuclear weapons.

Kazakhstan has proven that it takes nuclear security quite seriously. In October 2005, Kazakhstan’s national atomic company, KazAtomProm, in cooperation with the Nuclear Threat Initiative blended down almost three tons of highly enriched uranium that can be used as fissile material, the key component of nuclear weapons.

The project was carried out under the auspices of the IAEA. The Director-General of the IAEA Mohammed El Baradei said of the project that “the NTI-Kazakhstan effort could well serve as a model for future projects in other countries”.

Thus, given its accomplished record on non-proliferation issues, its multi-vector approach to foreign policy, and the fact that it is on good bilateral terms with Iran, Kazakhstan leadership is in a position to engage in a closer diplomatic dialogue with President Ahmadinejad, in order to persuade him to abandon the uranium-enrichment program and make its nuclear activities transparent to the IAEA. It is also vital to let Iran know about the success of the CANWFZ and how much it enhances the global nuclear non-proliferation regime.

The signing and ratifying of the Central Asian Nuclear Weapon-Free Zone treaty is indeed of great significance as it represents a rare occasion amidst a setback in the global quest against nuclear proliferation. It is indeed an example to be followed in other regions of the world, more importantly so, in the conflict-prone Middle East.

³ “Director General Commends Nuclear Security Project in Kazakhstan”, Staff Report, 10 October 2005: http://www.iaea.org/NewsCenter/News/2005/nuclear_kazakhstan.html

Central Asia and the Caspian Region: Regional Geopolitics and Global Energy Security

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It has become obvious today that the global energy market is hugely unbalanced not only by the exorbitant oil prices, but also by mounting military and political tension in the Middle East, the largest oil producer, and the rapidly disappearing oil reserves of the major oil consumers. The growing fuel consumption all over the world-in developed and developing countries alike-is another reason for these processes and the principles according to which the world market functions today. Huge amounts of money are being poured into the oil and gas sphere; and the political and economic interests of the major geopolitical actors are focused on it. It looks as if the world will continue consuming hydrocarbons at a rapidly increasing rate in the foreseeable future as well. As a result, the largest oil importers will obviously have to compete for influence or for even greater influence in the oil- and gas-rich regions.

Oil and gas are non-renewable resources randomly scattered all over the world, which explains their geopolitical importance for the world powers seeking stable and predictable access to them. Natural resources have long been not only an export item, but also an efficient foreign policy instrument of the states that possess these resources and the right to manage them. [1] While encouraging economic cooperation, many countries are pursuing geopolitical rather than economic aims.

The Caspian-Central Asian region, which includes the Caspian and Central Asian states, forms a large and interconnected energy market with an exceptionally advantageous geostrategic position. Today, the region is still a place where the national interests and geopolitical rivalry of external forces seeking energy security meet and intertwine.

ENERGY SECURITY CONCEPTUALIZED: THE ROLE OF THE CASPIAN-CENTRAL ASIAN REGION

It is commonly believed that two key issues dominate the global security sphere: first, is there a danger that the world's proven energy resources will be exhausted and how will the structure of the world energy balance change in

the next 25 years? And, second, what is "energy security?" If this concept does exist, what exactly should be done to allow each of the states and world energy fuel market as a whole to achieve it?

The results obtained during a wide-scale survey can answer the first question: by 2030 the share of oil in worldwide energy consumption will drop by one percent-from 39 to 38 percent. By the same year, according to the same project, the natural gas demand (if it grows by 3 percent annually) will double compared to 2001. By 2030, natural gas may account for 30 percent of the energy fuel market, thus outstripping coal by one-third. It will mainly be used for electric energy production, the demand for which will also rapidly grow; the pace will be especially impressive in industrializing China and India. The share of nuclear power energy will drop from 6.6 percent in 2001 to 4 percent in 2030, while renewable energy sources will double their share to 7 percent.[2]

In the next 25 years, oil consumption will rise steadily without leaps and bounds; after a while, the world will gradually exhaust the easily recoverable oil reserves (about 1 trillion barrels), since oil consumption outstrips the pace of new field development. The world, however, has huge (about 1.1 trillion barrels) oil reserves found in hard to reach or climatically harsh areas.[3]

Energy security is commonly described as "access to the energy resources needed to develop national power". There is a widely shared opinion in the expert community that energy security is the second important component of state policy, following immediately behind national defense.[4] It demands that the state should ensure a reliable, consistent, and diversified supply of energy sources. A reliable energy infrastructure is another side of the same problem, as well as emergencies that may disrupt its functioning. Sustainable economic development is a part of the wider problem of energy markets and reliable supplies. Diversification of energy resource supplies designed to ensure long-term energy security and environmental protection is another important issue. The geopolitical aspects of the general energy strategy presuppose control over the sources of energy fuels and their supply lines. The process turns into rivalry, which inevitably leads to clashes of interests.[5]

Significantly, a stable worldwide market of energy fuels is another key energy security factor, together with diversified supplies and stand-by facilities. The same applies to constructive relations with the producer countries and large-scale users of energy sources, multifaceted measures designed to protect fields and oil and gas transportation routes, as well as international projects of investigation of world power engineering prospects and more efficient energy consumption.[6]

Energy security issues are shifting from a desire to be energy-independent to growing mutual dependence of the exporters and importers and to globalization of energy production, transit, and consumption problems. It is becoming increasingly clear that regional energy security issues are developing into the global ones.

At present, most countries all over the world are facing grave challenges of a global nature closely connected with the still unresolved energy security problems. They are primarily the increased energy consumption, greater dependence on energy-consuming technologies, and skyrocketing prices on the energy market, as well as progressive depletion of the traditional explored reserves.

Today, the geopolitical structure of the global oil market is changing before our very eyes. Energy has become one of the key factors to be reckoned with. All countries should take them into account when shaping foreign policies and diplomatic approaches. In a world where energy fuels and the need for them have become the key factor of economic and technological development, energy diplomacy is already the linchpin of current policies.

For obvious reasons, the energy fuel-dependent countries are becoming much more lenient when it comes to foreign policy. In addition, attachment to one region as the sole source of fuel jeopardizes national security. As a result, the traditional paradigm of ensuring national security is changing, while most states have recognized the need to develop and implement a so-called energy security strategy. In the era of increasing mutual dependence, the world community has become fully aware that it needs stable and predictable energy markets as the cornerstone of global energy security.[7]

Looking back, we can say that the unprecedented grave energy crisis of the 1970s revealed the need to address global energy problems, including, among other things, by means of a dialog between the energy fuel producers and consumers. The crisis caused by the Arab countries' anti-Western moves shattered the world in 1973; oil prices skyrocketed for the first time in the 20th century to endanger economic progress in many countries. It was then that a group of developed countries, on America's initiative, closed ranks to oppose OPEC and its plans; it also elaborated certain measures that alleviated the global consequences of the energy crisis, which had already negatively affected the entire system of international economic relations. From the very beginning, the Group of Seven, or G7, set up in 1975, concentrated on international energy as well as trade, economic, and financial policy. It was an influential and competent institution of inter-state relations among seven leading countries. Its very first summits in Rambouillet (1975), Puerto Rico (1976), and London (1977) demonstrated that energy-related issues had moved to the fore in America's relations with other industrialized states.[8]

For historical reasons, global energy issues remain one of the priorities of today's G8 (with Russia among the members); its members largely define the course of global energy

diplomacy. As the G8 chair country for 2006, Moscow, obviously aware of the entire range of accumulated problems, concentrated on the energy sphere. It is expected that international cooperation in the energy sphere will become a priority, although not the dominant one, of world politics in the foreseeable future.

The growing international tension, spread of terrorism and extremism, the military operations in the Middle East, which is the world's most unstable region (Iraq, the Iranian nuclear problem, the Palestinian-Israeli and Lebanese-Israeli conflicts), and the increasing tension in Latin America (U.S.-Venezuelan relations), etc. have added new facets to the energy security problem.

How does the above affect the role of the Caspian-Central Asian region in the current geopolitical struggle closely connected with the world energy market?

The region, at the crossroads of the supply lines between Europe, Asia, and the Gulf zone, is commonly known as a key geostrategic area. It is equally well known that the rich oil and gas resources of the Caspian Sea have made the region important in the world energy sphere and in geopolitics. Today, according to certain sources, the total volume of proven oil resources in the Caspian is 4 billion tons, or 2.6 percent of the world resources.[9] It is commonly believed that Uzbekistan's gas reserves amount to 1,850 bcm; while Turkmenistan possesses 2,900 bcm of gas.[10]

America, Russia, the EU, and China are convinced that the Caspian hydrocarbons are a serious factor capable of maintaining stability on the world oil market in the first half of the 21st century, as well as helping them to somewhat decrease their dependence on oil imports from the Middle East where continued military-political instability is forecasted. The Caspian reserves of energy fuels are large enough to satisfy a considerable part of the above countries' requirements. The Caspian reserves are not vast enough to undermine the Middle East's domination, yet they may stabilize the prices and the overall situation on the world energy markets.

Let's identify some aspects of the energy interests of the most active geopolitical players on the Caspian-Central Asian "chessboard".

The U.S.: As the world's largest oil consumer, the United States uses its economic and military might to pursue its own energy diplomatic strategy on a global scale. In fact, energy foreign policy all over the world has become even more important because the United States is the world's largest consumer of energy resources.[11] In the light of the officially announced long-term aim of diversification and much deeper development of the raw-material base outside America exploited by American companies, its foreign policy in the energy sphere concentrates on international regions and zones of its special energy interests.

The United States treats its relations with the countries rich in energy fuels the Gulf, Latin American, Central Asian, and Caspian countries-as a priority. Washington officially describes the latter, together with the Gulf countries, as a zone of its "vital interests", which affects America's national security. This is dictated not only by its urge to achieve and maintain energy security: it is the White House's ambition to control the Caspian and Middle Eastern sources of energy fuels and transportation routes at the same time to be able to strengthen its geopolitical and economic situation in the world and its domination on the world hydrocarbon markets. In this context, the United States is seeking Caspian resources not so much to import more oil as to use the increased oil exports from the region to put

pressure on the OPEC members in order to undermine their influence on the world oil markets.

Today, the United States needs oil more than ever before, therefore free access to energy fuel sources has become one of its priorities. In the last ten years, Americans have increased their oil consumption by 14 percent, while domestic oil production rose by 2 percent, the difference being covered by imported oil. In the last ten years, energy fuel import has grown by 30 percent. America is obviously growing increasingly dependent on oil imports; the situation is becoming even more serious because of the inflated oil prices.[12]

Due to its recent failures in Iraq, Afghanistan, and elsewhere, Washington has somewhat readjusted its approaches to the other powers present in the region. In October 2005, during her Central Asian trip, U.S. State Secretary Condoleezza Rice confirmed once more that the U.S. Administration was resolved to remain in this strategically important region and pointed out that no "race of interests" was needed since there was enough room for all.

The RF: Russia is the world's largest oil and gas exporter, which explains why energy fuels are its very important foreign policy issues. The Caspian and Central Asia are traditionally the zone of Russia's geopolitical and economic interests. Its key interests include control over the production and transportation of oil and gas resources to the markets.

Transportation is important because Russia not only wants stability when it comes to the geopolitical balance of forces in the region but also deems it necessary to maintain stability on the world oil and gas markets in the interests of both producers and consumers.[13] The Kremlin does not want to make Central Asia a scene of geopolitical confrontation, even though there is opposition among the foreign actors there.

Russia, which is posing as a large and independent energy power, is seeking a corresponding share of responsibility for global energy security and stability. In 2006, President Putin officially announced that Russia intended to become the world's energy leader. Moscow put forward the energy issue as the key one at the Petersburg G8 summit in July 2006.

In recent years, the Russian government has established tighter state control over and management of energy resources inside the country, yet many of the Western states are apprehensive about Moscow's rather hard-line energy strategy. The West is displeased with the YUKOS affair, strict limitations on foreign investments in Russian oil fields, etc. The Kremlin has obviously acquired ideas of its own, different from those of the West, about energy security and the role of Russia and Central Asia on the global energy market.[14]

The PRC: In the last twenty odd years, the energy fuel deficit has come to the fore as an extremely important factor that interferes, to a certain extent, with the country's economic dynamics. According to specialists' forecasts, in the future the country will have to import more and more oil. In 2004, it imported 120 million tons of crude oil; and in 2005, China's dependence on imported fuel topped 50 percent. According to preliminary forecasts, by 2010 it will consume 400 million tons of oil, a meager 160-170 million tons coming from domestic sources.[15] Mid- and long-term economic prospects reveal the true significance of oil for China.

In the face of economic development and the new trend of energy consumption, as well as in the worldwide energy-geopolitical and diplomatic context, China is seeking a stable

strategy that will bring it to the foreign energy markets, the Central Asian market in particular.

At no time has Beijing doubted the region's strategic importance; it has always regarded Central Asia as its natural continental sphere of influence. Today China is actively trying to penetrate Central Asia's energy market and have a say in any possible re-division of it.[16]

It should be said that, apart from Russia and Kazakhstan, Turkmenistan and Azerbaijan are China's two other partners in the energy sphere. Because of their huge hydrocarbon resources, geographic proximity, which makes transportation easier, and the dynamically developing integration within the SCO, Kazakhstan and Russia are of special strategic importance for China.

The EU: The European Union, a geopolitical actor of a new type with vast economic and military-political potential, as well as great ambitions created by the combined national interests of 25 European countries, is actively seeking a niche of its own in the global energy expanse.

According to the European Commission, the EU will become even more dependent on imported gas and oil in the near future. If nothing is done today, in two or three decades the EU will cover 70 percent of its energy fuel consumption with imported oil. (Today Brussels estimates the share at 50 percent.) To avoid a short-term deficit, Europe has to create mechanisms of fuel deliveries from other countries.

Jose Manuel Baroso, Chairman of the European Commission, has pointed out in particular that to ensure a steady supply of energy fuels, all the EU member states should close ranks: they have to decide whether they are prepared to delegate their powers in the energy sphere for the sake of a coordinated energy policy that will strengthen the EU's position at the talks with oil and gas suppliers. Brussels has obviously learned the lesson of early 2006 when the gas conflict between Russia and Ukraine undermined gas supplies to EU countries.[17]

It seems that the coordinated energy policy issue looms large and that the Caspian-Central Asian region will play one of the key roles in its implementation. In 2005, the EU showed, in the diplomatic manner typical of it, its interests in the region by creating the post of special EU representative for Central Asia and the Caucasus.

Unlike the United States, the EU countries recognize Russia's interests in Central Asia and are prepared not only to discuss them, but also to cooperate in the security sphere (the anti-drug struggle in particular), the fuel and energy complex, and the transportation problem.[18]

All the above countries and the EU are the main actors operating on the energy field of the Caspian and Central Asia. There are several periphery players also wishing to claim their share of the "energy pie". With no prominent position in this sphere, they can be described as strong regional geopolitical actors. The regional states turn to these countries when they need an alternative to the main players. I have in mind Turkey, India, Pakistan, and, to a certain extent, Ukraine. None of them can be described as a newcomer, but not all of them are strong enough to reinforce their declared ambitions with practical measures: their regional presence is still barely noticeable.

India: Today it is the sixth world's largest energy consumer; it is actively involved in the process of diversifying its energy sources. Like China, it is enormously interested in the Caspian states' gas and oil sphere. Obviously inspired by the Baku-Tbilisi-Ceyhan project, Indian Energy Minister Shankar would like to initiate another similar project—an oil pipeline that would bring Caspian oil to India.

Pakistan: Its acute need for energy fuels is forcing the country to convince the Caspian states to take part in the old project of a Trans-Afghanistan gas pipeline system from Turkmenistan across Afghanistan to the South Asian countries.

Its frenzied activities are politically dominated. First, having presented itself as one of the regional leaders it wants a greater presence in the oil-rich region by building up economic contacts with the Caspian states. Second, it wants to deter India, its traditional rival. Third, because of its far from simple relations with Washington, Islamabad is seeking new partners up north.

Turkey: This is another actor pushing for geopolitical prominence in the Caspian region and Central Asia. Together with American companies, it is actively promoting the BTC oil pipeline, which, by joining the Caspian oil field with Turkish ports, will allow Turkey to diversify fuel sources and alleviate the dependence of Western Europe and America on the Gulf countries, by the same token increasing its own political and economic importance for the West.

Ukraine: Quite unexpectedly pro-European Ukraine wants a geopolitical role in the region: its new leaders described Ukraine's energy independence from Russia as one of its national priorities. Today, over 90 percent of Russian gas supplies to Europe are transported across the territory of Ukraine, which determines Kiev's strategic significance both for Russia and the European Union. However, the serious political crisis in the relations between the two countries, which cropped up after the Orange Revolution, made Ukraine Russia's permanent headache. Oil transit is not the only problem: potentially, at the instigation of the Orange leaders, Ukraine may become a military strategic springboard for the United States and NATO. As such it will develop into a serious challenge for the Russian Federation.[19]

The Caspian-Central Asian region is of great objective importance for the leading Western and Eastern countries as a large source of energy fuels; over time it will become even greater, so geopolitical tension will persist.

PIPELINES AS A TOOL OF ENERGY DIPLOMACY

The contradictory interests of the countries pushing forward their own projects and trying to shape the geopolitical orientations of the continental Caspian states are graphically manifested in the energy fuel transportation issue. This is creating many problems for the local countries, which must skillfully balance the interests of all main players to protect their own interests as well. The interests of the key Big Game players in the transportation issue are too complicated to be easily balanced—the task is very complex and calls for a lot of ingenuity.[20]

The pipeline systems are developing into an important tool for protecting and implementing national interests; they are a tool of pressure, as well as a tool of friendly and long-term strategic partnership.

The Russian-Ukrainian gas conflict of early 2006 graphically demonstrated how such crises would be resolved in the near future. The "energy pressure" model was remarkable because it was carefully prepared: by halting gas supplies to Ukraine, the consumer and transit country through which gas reaches the EU, Moscow, without impairing its own interests, put strong pressure on Ukraine through Brussels, which suffered the most from Kiev's "misbehavior". The crisis escalated from an economic into a political one. Ukraine, which wants to join the EU,

yielded to EU pressure. By raising gas prices and halting its supplies, Moscow showed who was the boss and sent a broad hint to Brussels.

In Western Europe, however, this message was taken as a sign of trouble. Western analysts wrote that Russia, very much as before, continued using its energy resources for political purposes. It used natural gas to "reward" neighbors that accepted its "political dictate" (such as Belarus) and to "punish" states wishing more independence (such as Georgia and Moldova). It is also seeking control over their oil- and gas-pipeline and energy supply systems through gas as a pressure tool. It is a powerful one: Russia accounts for over a quarter of the world's total gas supplies; it is one of the key gas suppliers for practically all the European countries.[21]

This explains why the Caspian and Central Asian countries are doing their best to diversify energy transportation, while Russia probably runs the risk of losing, some time in the future, its monopoly in this field as well. Contrary to their carefully demonstrated desire to preserve constructive relations with Russia, the United States, EU, and China would like to deprive it of its monopoly in this sphere.

Today, Moscow still controls the oil-pipeline infrastructure, which includes the CPC, the Atyrau-Samara, Baku-Novorossiisk, and other pipelines; it can still impose its conditions on the Caspian and Central Asian countries and remain the region's leader.

Beijing is currently in a very favorable position: it has completed the oil pipeline from Kazakhstan through Atasu to Alashankou, which goes on to reach the Asian Pacific states. For China, this route is a strategically, economically, and geopolitically important project; for Kazakhstan it is an open door to the capacious and promising Asian market. Economic advantages aside, the completed project will allow Kazakhstan to pursue a more flexible transportation policy independent of both American and Russian factors, as well as to balance out their regional influence. The Kazakhstan-Chinese project cannot be described as a political irritant for Russia's establishment: today, Russia and China are engaged in strategic cooperation.

The other big players, such as Washington and Brussels, cannot respond with alternative transportation routes to oppose the Kremlin. The "alternative" BTC pipeline is of obvious geopolitical importance and intended as a counterweight to Moscow. It was lobbied for its political rather than economic expediency and was a product of political considerations rather than negotiations of all sides involved. Significantly, its members either belong to GUAM or NATO (Turkey).

Kazakhstan's involvement is purely pragmatic and is prompted by the need to find alternative transportation routes for its oil. By seeking multi-vector export routes, Kazakhstan is diversifying its markets and achieving flexibility in loading and using the oil transportation systems. This is creating better tariff conditions for Kazakhstani oil and gas exporters. Experts agree that without Kazakhstani oil the BTC pipeline would unlikely be operating smoothly, therefore growing oil production in Kazakhstan was taken into account from the very beginning. For obvious reasons, the leaders of Kazakhstan at first were cautious about the project mainly because it was hard to deliver oil to Baku. It was understood from the start that when the republic's oil production outstripped its transportation potential, Kazakhstan would join the BTC to avoid greater dependence on Russia and its oil-pipeline system.

Moscow responds to these developments with a great deal of pain and jealousy. Even before the BTC project began, the RF Ministry for Environmental Protection objected to pollution of the Russian sector of the Caspian as a probable result of increased oil and oil product traffic among its Caspian neighbors and promised to take adequate preventive measures. Obviously, Russia will use administrative measures to prevent Kazakhstani oil from joining the BTC. It is unlikely to succeed: it will more likely lose its complete control over Kazakhstan's oil export, which it used to its heart content for a long time.[22]

Today, the CPC is Kazakhstan's only outlet to the world market. When fully commissioned, the BTC project will diversify the republic's export and provide a counterbalance to Russia's influence. At the same time, the project will add to America's political weight in the region, which Kazakhstan will have to take into account. For this reason, it is discussing, so far in an abstract way, its possible involvement in the Odessa-Brody pipeline. The problem cropped up at recent talks with Ukraine, at which plans for a consortium among Ukraine, Azerbaijan, Kazakhstan, and Georgia were discussed. It is intended as an operator for transporting Caspian oil from Kazakhstan, Turkmenistan, and Azerbaijan along the Baku-Supsa pipeline and further on to Odessa.

So far, due to Astana's potential rivalry on the world energy markets, Moscow, wishing to achieve certain political aims, can one-sidedly regulate the volumes of Kazakhstani oil crossing its territory and use it as a lever of political pressure.[23] This happened in the past when the Kazakhstani National KazMunaiGaz Company was not allotted a quota of 12 million tons of oil to be moved to the Mažeikiai oil refinery in Lithuania, thus depriving the company of the chance to buy it.[24]

Turkmenistan, with the largest gas reserves in Central Asia and its export possibilities limited by the Gazprom pipeline system, is trying to find an alternative export outlet to sell gas at higher prices. Turkmenistan is not running any risks by entering into an open confrontation with the Russian giant monopoly. It has alternative customers-Ukraine and Belarus-the Russian company's "victims", which are prepared to accept Ashghabad's conditions (this is true of Ukraine in particular). A contract with Turkmenistan will allow Ukraine to decrease its dependence on Russian gas supplies and reduce the threat of a price increase. In 2007, Ukraine may count on considerable volumes of gas from Turkmenistan. Gazprom runs the risk of losing its monopoly on Turkmenian gas and a tool of pressure on Ukraine. The company might be deprived of part of the volumes it planned to buy from Turkmenistan to sell to Western Europe; it will be forced to look for gas elsewhere to fulfill its European contracts in 2007.[25]

In an effort to preserve its control over Central Asian energy exports, Russia is offering its own arguments against the trans-Caspian pipelines. While Russian diplomats are talking about the environment, Moscow is building up its military presence in the region. A couple of pipelines on the Caspian seabed will completely destroy Russia's monopoly on the export routes that link the key energy producers in Central Asia (Kazakhstan and Turkmenistan) and the Western markets. Today, Moscow is doing its best to prevent the implementation of the trans-Caspian pipeline project. Azerbaijan and Kazakhstan, two countries that need maximum energy export independence, have joined forces to counter Russia's environmental objections.[26] Astana, Ashghabad and Baku might demonstrate even more consolidated determination to oppose Russia.

Washington is convinced that a wider system of energy security achieved by creating more energy transportation routes meets the interests of the local states and foreign investors. After succeeding lobbying the BTC pipeline, the Americans have been busying themselves with pushing through a so-called Trans-Caspian Gas Pipeline designed to move Turkmenian gas across Azerbaijan, Georgia, and Turkey to Europe. It looks as if the United States have decided to link the two projects together as vitally important for Washington's foreign policy strategy, mainly from the point of view of its geopolitical interests in the region.

To protect itself from the Middle Eastern political risks by means of Caspian oil, Washington should decide which of the export routes is best suited to its interests. This means that the United States should clearly acknowledge whether bypassing Russia should become its major aim. Or will being involved in laying export routes across Iran, the alternative favored by the non-American participants in the project, be less palatable than Russia's participation?[27]

The "energy lesson" Russia taught Ukraine early in 2006, forced the U.S. State Department to declare that America's energy security should become a state priority. The lesson was obvious: the United States should act in all directions in order not to fall victim to other states' politics.[28]

It should be said in all justice that American energy diplomacy is fond (at times even more than Russian) of all sorts of sanctions against states whose policies are not popular with the White House or threaten, according to American reckoning, generally accepted democratic principles and international security. Misbehavior includes human rights violations, involvement in terrorist acts and drugs, nuclear proliferation, use of prisoner labor, etc.

American-Iranian relations may serve as an example. They have remained strained for a long time; Iran is living under the pressure of all sorts of sanctions and fairly harsh treatment from Washington. Many of the transportation projects involving Iranian oil failed precisely with American help.

America is probably unwilling to change the situation; its hostile anti-Iranian policies might be explained by its desire to keep away all rivals until the Americans return to the Iranian markets. At the same time, there is a desire to establish more constructive relations with Tehran, but this development cannot be forecasted so far.

For objective reasons these policies do not suit Kazakhstan and Turkmenistan, two continental countries that badly need Iranian transit. The leading EU countries may demonstrate a more positive attitude to the trans-Iranian transportation project: they have been clearly and increasingly detaching their interests from America's ones, in the Caspian region as well as elsewhere. The Europeans know that American policies in Iran are aimed at replacing the ruling regime with a more malleable one-to ensure America's national security and to establish direct or indirect control over this oil-rich country. For this reason, the EU is pursuing a more independent policy in the interests of its members wishing to peacefully cooperate with Iran in the sphere of energy and transit.[29]

Today the EU, as one of the key consumers of Caspian energy resources, is trying to diversify supplies; this makes it interested in improving relations with alternative suppliers. Back in 1991-1994, most of the European states signed the European Energy Charter, which said that each transit country should ensure free access to its transit facilities for final energy consumers. This means that every country

receiving certain volumes of gas through transit systems should have free access to the transit system within the volumes it uses.

The EU is pursuing its own policy on the energy market. Unable to modify the rules on the world oil markets, Brussels turned to gas. In 2000, gas accounted for 23 percent of the EU energy consumption; the share is expected to reach 32 percent by 2030. This forced the EU to promote rivalry on the gas supply market by separating EU pipeline companies from gas distributors and demanding free access to European pipelines for all interested gas suppliers.

The EU is strengthening energy security at the level of gas production: EU bureaucrats and European companies are actively involved in the gas pipeline project to connect Azerbaijan and Europe via Turkey. The European Union would like to transport Turkmenian, Kazakhstani and, potentially, Uzbek gas through this pipeline.

In the current situation, greater European or Chinese involvement in the region's pipeline infrastructure will decrease geopolitical tension and help balance out the regional rivals. A developed pipeline system will become a tool of foreign policy and economic activities. The far from simple situation in the Caspian and Central Asia has demonstrated that diversified energy sources and transport outlets are conducive to geopolitical balance and energy security.

ENERGY SECURITY AS THE CORNERSTONE OF THE GEOPOLITICAL STRUCTURE IN THE CASPIAN-CENTRAL ASIAN REGION

During the past five years, the Caspian-Central Asian region has remained in the focus of international attention; because of its geostrategic position and energy potential it occupied a niche of its own in the system of geopolitical coordinates. To grasp all the difficulties of regional geopolitics, we should identify the following obvious and continuing trends, which include:

- lack of balance and strategic certainty among the main external players (the U.S., RF, PRC, and EU);
- lack of balance and strategic certainty between the key external players and the Central Asian countries;
- lack of balance and strategic certainty among the Central Asian countries themselves.[30]

These trends are responsible for the highly complicated nature of the regional geopolitical processes. We should admit that the national interests of the major geopolitical players in the sphere of sustainable energy supplies and control over their sources are responsible for the international political demagoguery over ensuring regional security in the Caspian-Central Asian region.

It seems that under these conditions, security of the local states is seen through the prism of required stability of energy supplies and guaranteed incomes on investments. The above suggestions are based on the following: first, demonstration of military might by two opposing blocs-CSTO/SCO and NATO/GUAM-which is sending regional tension higher; second, regional tension and instability are preserved to feed the member states' energy-related ambitions. Today, all those involved in the region are equally exposed to the threats, therefore we need a balance among the external forces and their cooperation lets regional tension continue.

The year 2005 changed the geopolitical situation in Central Asia and changed the balance of forces of the main geopolitical actors.

The United States lost some of its influence and its position was weakened. As a result of the regime change in Kyrgyzstan, the political crisis in Uzbekistan, and the worsened situation in Afghanistan, these countries changed their political landmarks. More than that: Washington's domination is challenged by the continued and deepening Iraqi crisis, the latent conflict in Afghanistan, and obvious and mounting anti-Americanism in Latin America, Asia, etc. This is largely related to America's domestic situation: the president's plummeting job approval rating, frequent personnel shifts at the top of the state administration, and an obviously encroaching crisis in George W. Bush's administration.

As was earlier predicted, these developments have deprived Washington of its previous ability to control all the military-political processes on a global scale: while concentrating on one region, it is losing its grip on another.[31] It is too early, however, to dismiss the U.S. altogether: during the five years of its active involvement in regional developments, Washington acquired a firm foothold in the economic and military sphere of some of the local states and can, therefore, influence the energy situation in the Caspian-Central Asian region. Since the situation in the Middle East is going from bad to worse, America might act quite unexpectedly to fortify its position in the Caspian and Central Asia and increase its share in the local energy fuels.

Today, Russia is in the center of a geopolitical web being woven to decrease its monopoly influence on the regional energy flows. Seen from the West, Moscow looks like a "transportation monopolist", a potential "energy dictator", a threat to the energy-related interests of the Western countries, and a strategic partner at the same time. Double standards typical of Western diplomacy and America's political achievements in the region have not yet deprived Russia of its geopolitical power and ability to affect local politics to a certain extent. Its close relations with the Caspian states, rooted in common history and cultural ties, transit potential, and the strongest military presence in the Caspian are Russia's most obvious advantages.

Today the Kremlin has clearly outlined its role as the world's energy power and given the other players to understand that it will not tolerate any infringements on its monopoly in the region. On the other hand, all Russia's gains in the region aside, it has not yet identified its long-term interests, therefore we cannot expect its final predominance in the Caspian and Central Asia in the near future.

China, which for some time remained fairly passive, has been increasing its involvement in the geopolitical struggle around the oil pipelines. It still remains devoted to the traditional "wait-and-see" tactics, yet its position in the regional economies has become obviously stronger. We can expect a breakthrough. As a large oil importer, China is in the same boat as the U.S., EU, Japan - large-scale oil consumers. We would expect concerted actions on their part when it comes to dealing with oil suppliers. The sides, however, feel and behave like rivals rather than like fuel-hungry partners: the West is trying to keep China away from Middle Eastern oil and limit its presence in the Caspian.

China's "friendship" with Moscow and Astana, its key energy allies, stems from the above. Fully aware of China's dependence on fuel and despite their strategic partnership, the Kremlin deems it necessary to betray its ambitions from time to time: in 2003-2004, the talks between the two countries about oil- and gas-pipelines from Siberia

to China failed because neither the oil companies of the Russian Federation, nor its government wanted to increase oil deliveries to China. Moscow's "pipeline games" forced China to seek alternatives, which were found in the form of a pipeline project with Kazakhstan. The Russians, meanwhile, have not dropped the original plan altogether, but refused to look at the project expected to bring Siberian oil to the northeast of China through the city of Daqing as the priority one. Moscow favored a transportation project from Eastern Siberia to Nakhodka from which Japan, China's main rival in the region, profited.[32] This is far-sighted because, under Western pressure, Moscow obviously needs strong regional allies.

China, too, needs military might to confirm its position in the region. In May 2005, Beijing put forth feelers: Liu Zanchao, spokesman of the Foreign Ministry of China, said in the *Huaxia Shibao* newspaper that the Chinese side "may seriously consider" the possibility of sending its troops to Kyrgyzstan within the SCO framework because its armed forces deployed in the country's south might prove useful in the struggle against terrorism, separatism, and extremism.[33] The statement was prompted by the words of Kurmanbek Bakiyev, who said that because of the events in Uzbekistan the republic's southern regions were flooded with refugees and that he would agree to the deployment of CSTO and SCO forces to stabilize the situation.[34] Official Beijing offered no comment about Liu Zanchao's declaration, but Bishkek diplomatically rejected the "Chinese intervention" (the term the press used to describe the possible deployment of Chinese troops in Kyrgyzstan). The Chinese did not insist, but their hint was too obvious to be misunderstood.

The changing geopolitical situation in the Middle East and Central Asia is forcing China to extend its political and economic cooperation with Iran. It may serve as a diplomatic tool to be used in China's geopolitical maneuvers in both regions and an important source of energy fuels. Today, several scores of Chinese companies are already involved in large-scale energy, industrial, and construction projects, one of them being a main pipeline to Tehran. This is obviously intended, among other things, to stimulate trade in oil and oil products with Kazakhstan and Turkmenistan.

It seems that Washington, as Beijing's main rival, will offer stiff competition over oil and domination in the Caspian and Central Asia. China will persist in going on in the desired direction and will continue avoiding an open confrontation with the United States. While moving forward step by step and using the mechanism of economic cooperation, China

will build up its presence in the region until all the other powers will have to accept it for a fact.[35]

The European Union, for its part, is also working on its energy-related policies in the region, but it is unlikely to step up its involvement in the mid-term: the very complicated system of harmonizing the positions of its 25 member states is unlikely to allow it to fortify its position in the region as a single energy player. It seems that individual members (Germany, the U.K., and France) will demonstrate more activity. In any case, it is too early to look at the EU as a serious force in Central Asia. Brussels' obvious intention to present itself as a power in the region is merely another attempt to acquire more confidence and overcome the complex of a "junior" member of the trans-Atlantic combination.

The above suggests that a lack of balance among the leading external players and tension among them as well as among the local states and their fairly complicated geopolitical intrigues are destabilizing the situation. Destabilization, in turn, jeopardizes the sides' energy security.

* * *

It seems that permanent tension in the Caspian and Central Asia may negatively affect its energy market's competitiveness on a global scale. No "Caspian Oil Cartel" will appear to balance out the Middle East: its energy resources will remain an object of political games of outside forces and "hostages" of the ambitions of transit countries.

Central Asia needs alternative cooperation channels and an efficient system of geopolitical checks and balances. Being dependent on the key geopolitical actors, the local countries remain targets of outside influence unable to change the course of events in their favor. The still unsettled status of the Caspian, which is creating numerous claims and ambitious statements, is one of the stumbling blocs.

It seems that the widening oil pipeline network might allow the local oil producers to defend their interests more effectively. A ramified transportation system and considerable resource potential are the keys to the leading actors' energy security, and they should learn how to use them. If they continue acting independently, the regional states are in danger of perpetrating their dependence on external forces. Only by pooling their efforts and creating a single energy market as the basis of their united front on the global market, these countries have a chance of increasing their energy and, consequently, geopolitical competitiveness.

Today, there is nothing to indicate that this might happen soon, while external forces continue exploiting the divide and rule policies with great success.

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Multi-Vectored Policies in Central Asia

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For more than 10 years already, the term “multi-vectored foreign policy” has been the official doctrine of Kazakhstan’s diplomacy. In one form or another, this doctrine has been put into service by the foreign policy departments of other Central Asian states, with the exception, perhaps, of Turkmenistan, which has proclaimed its neutrality, but nevertheless also means multi-vectoredness – that is, interaction in various directions in the international arena.

What does multi-vectoredness mean in the conditions of Central Asia? In our view, this concept should be understood as the renunciation of an unequivocal and exclusive orientation toward any external force – a great power, a political bloc, a civilization, or any other regional association. It should be noted that “multi-vectoredness” as a principle of foreign policy is not a unique discovery. In modern history, parallels can be found between multi-vectoredness and other examples in which various countries and international movements have conducted balanced and independent policies: the Non-Aligned Movement during the Cold War, Gaullism in France, the concept of a multipolar world in modern Russia and China, and many others.

Thus, the term “multi-vectoredness” should be considered in the following way: in the beginning, as a balanced foreign policy, and on the whole, as an independent foreign policy. But is real independence achievable in the conditions of geopolitical rivalry in Central Asia? In other words, is “multi-vectoredness” well-founded as a principle and possible in reality?

The states of Central Asia have tried throughout their post-Soviet histories to follow this course on one level or another. However, on close examination it is not difficult to notice that in every country’s foreign policy, on various levels and in various political situations, significant differences and distinctive features can be seen.

This analysis begins with Kazakhstan, which officially uses the concept of a “multi-vectored foreign policy” and was the first in the region to bring it into use. In its time, multi-vectoredness as a fundamental principle of the Republic of Kazakhstan’s foreign policy has been subjected to sometimes justified, but more often groundless, criticism. From today’s perspective, the situation of the past decade and a half can be explained entirely by the weakness of the young Kazakh state’s position in the world arena, by Kazakhstan’s dependence on external geopolitical factors and the behavior of great powers, and by the turbulence and uncertainty of international life in the 1990s. However paradoxically, during the first half of that decade the declared multi-vectored foreign policy of the Republic of Kazakhstan did not appear in reality. It was more dualistic, a policy of

balance between Russia and America, between the West and the Commonwealth of Independent States (CIS).

Multi-vectoredness was imparted to Kazakhstan’s (and not only Kazakhstan’s) foreign policy by such factors as the appearance of China as a serious player in Central Asia and Kazakhstan’s conduct of an independent policy in relation to other centers of power and regional powers during the second half of the 1990s. But the Republic of Kazakhstan’s foreign policy became truly multi-vectored only in the new century – that is, during the past few years – thanks to the consolidation of its statehood, its economic growth, and Astana’s achievement of a leading position in Central Asia and in the territory of the former Soviet Union as a whole. The events of the past few years have shown that Kazakhstan is truly capable of conducting a real multi-vectored, and in the process an independent, policy on various levels of the world arena.

As Kazakhstan has joined an increasing number of international organizations and regional associations, it has been welcomed everywhere with open arms. Other countries see Kazakhstan not only as potentially rich in resources and a promising economic partner, but as a state that has proven the soundness and seriousness of its intentions. In the process, Kazakhstan often was guided only by considerations of near-term prospects. The most serious test was maintaining multi-vectoredness and balancing under conditions of aggravation in the international situation, and also concerning problems of regional security and the appearance of real threats to stability and security in Central Asia in the period from the end of the 1990s to the beginning of 2000. In these complicated conditions, the principle of multi-vectoredness fully proved its soundness. Kazakhstan strengthened its position and, accordingly, its security in all directions, forming correctly adjusted and careful relations in the directions of the Collective Security Treaty Organization (CSTO), the Shanghai Cooperation Organization (SCO) and the North Atlantic Treaty Organization (NATO).

At the beginning of 2000, the most serious tasks facing Kazakhstan’s multi-vectored policy were the following: strengthening the country’s security in the conditions of an abruptly changed geopolitical situation; maintaining a balance, on the one hand, between Russia and the United States, and on the other hand, between the Russian Federation and the People’s Republic of China; and most importantly, preventing any attempts from the outside to influence the domestic political situation and to destroy internal stability in the country.

We should note that in this period it was necessary for Kazakhstan to impart a new quality to its multi-vectoredness. We are speaking about relations with Russia. During the

Yeltsin epoch and in the "early Putin" period, Kazakhstan habitually played the role of the closest and most reliable, but nevertheless junior, partner. After a while this role ceased to answer the needs of the developing realities. In the past few years, Astana has managed to build its relations with Moscow so well that Kazakhstan, not demonstrably but efficiently, has changed the character and format of its connections with Russia, and in this way has converted them into truly equal relations between two allied and close, but nevertheless fully sovereign, states.

Such a qualitatively new situation could not but be reflected in the entire format of the Republic of Kazakhstan's foreign policy and in all of its directions. This allowed the country to make decisions that were important to Kazakhstan from a strategic perspective, even though Moscow's negative reaction to a few of these was obviously known. The most graphic illustration is the history of Kazakhstan's decision to join the well-known Baku-Tbilisi-Ceyhan (BTC) pipeline project. Indeed, during the course of many years, Kazakhstan alternatively was forced to say not "yes," but also not "no," or to simultaneously say "yes" to all interested sides.

In 2006, this problem was finally resolved. Although it did not approve, Moscow nevertheless was forced to accept the sovereign decision of an independent state. In the process, Astana's decision to join the BTC was in no way reflected in other spheres of Kazakh-Russian cooperation. Moreover, while making mutual concessions, Astana and Moscow actively cooperate in the oil and gas sphere: for example, with respect to the Orenburg oil refinery, deliveries of Kazakhstan's gas to Europe, Chinese projects, and with respect to other issues.

The reasons for the "smoothing" of relations between the equally great neighbors, Russia and Kazakhstan, are many, but the main one is the rapidly growing international authority of the Republic of Kazakhstan. The main conclusion is the following: Kazakhstan, as before, remains sure of its role as an integrator and finds itself at the center of all processes of integration in the territories of the former Soviet Union. But in the process, Astana understands the maximum level of integration exclusively in the economic sphere (in the extraordinary case, in the military-strategic sphere). The political sovereignty of Kazakhstan should be preserved no matter how the situation develops. That is, whether it makes a special point of this or not, Kazakhstan strives for the European model of integration. If this is not fully understood in Moscow, then in Washington and in other Western capitals it is obvious that leaders have arrived at an understanding of Kazakhstan's position. This may explain the loyal relation of the United States and the West toward Kazakhstan's multi-vectoriness.

In its relations with the United States, Kazakhstan is also guided by strategic interests, and not by an urge to correct a balance in favor of one or another. Kazakhstan sent a subdivision of the Kazbat (Kazakhstan Battalion) to participate in the peacekeeping mission in Iraq (under a UN mandate), even though Moscow's negative reaction was fully expected. Nevertheless, this expedition was not an effort to make Kazakhstan more attractive to Washington, but part of a program to raise the fighting experience of Kazakhstan's army, not to mention that it reflected very positively on the Republic of Kazakhstan's international prestige. On the other hand, Kazakhstan firmly avoided any attempts by the United States to station American military bases on the territory of the Republic of Kazakhstan. Furthermore, in July 2005, Astana found it necessary to join in the anti-American SCO

declaration demanding that Washington set a timetable for the withdrawal of its bases from Central Asia.

Uzbekistan's foreign policy, even more than Kazakhstan's early foreign policy, was not multi-vectorial, but dualistic. This dualism by Tashkent was determined by the problems of security and the strategic choice to be made between Moscow and Washington. Karimov quarreled with Turkey, regarded the Islamic countries with suspicion, and for a long time distanced himself from China (although he put its model of state capitalism into use). Thus, Tashkent's choice was between America and Russia. If one carefully examines Uzbekistan's behavior in its relations with Russia and the USA, it resembles the movement of a pendulum: from Moscow to Washington and back. It is difficult to define the exact chronological amplitude of the oscillations in Tashkent's course between the two powers. On average, each phase lasted two to three years.

If we return to the beginning of the 1990s, we recall that American politicians and strategists regarded Uzbekistan rather coolly. At that time they were counting on Kazakhstan, with its oil prospects and its nuclear weapons. Among Clinton's strategists, Karimov was associated with policies of opposition to market and democratic reforms, conservation of the old economic model, Soviet-style repression, and also with overly close relations with Russia. Human rights organizations, in a harmonious chorus, criticized Karimov for elections and for his harsh policies in relation to the opposition. The fact that Karimov, with his model of a strong state, managed to prevent the catastrophic consequences of shock therapy that struck practically all of the countries in the CIS, was of no interest to anyone in the West.

But as the middle of the 1990s approached, the situation gradually began to change: In Washington, policymakers suddenly noticed that Uzbekistan had the most stable cultural-historical traditions in the region, the largest population, the most battleworthy (or at least, the largest) army, and in principle could act as a regional hegemon. At that time Kazakhstan began to return rapidly to the orbit of Russia, especially with respect to the Caspian problem. Uzbekistan did just the opposite – it began to drift away from Russia. There were a number of reasons for this, the most important of which was the normalization of the situation in neighboring Tajikistan. What is more, consciously or not, Tashkent began to position itself as a counterweight to Russia in Central Asia. In the Clinton administration, which had no distinct strategy in relation to the region except for the unclear "Talbot Doctrine," policymakers understood this and evaluated it. A revolution in the Uzbek-American romance began to form, the agony of which we are witnessing today.

For his part, Karimov began to understand that in order to please his new patron, whom he did not want to place in an awkward position, he did not have to establish true democracy; rather, he could manage to calm Western liberals with a mere imitation of democracy. The turning point in Tashkent's geopolitical orientation came in June 1996, when Karimov paid a visit to the United States, during which Clinton gave his Uzbek partner to understand that his administration viewed Uzbekistan as a key state in Central Asia. The American-Uzbek rapprochement reached its apogee in April 1999 at NATO's 50th anniversary celebration in Washington. Uzbekistan with considerable pomp was accepted into GUAM, the new anti-Russian geopolitical project, and the United States and its Atlantic allies were not stingy with their compliments toward Uzbekistan and the harsh anti-Russian position it had taken. In May of that

year, Uzbekistan pointedly withdrew from the Collective Security Treaty.

On the eve of the parliamentary elections in December 1999, Western representatives still were not stingy in their laudatory statements toward the Uzbek president. In the words of ambassadors Pressel and Johnson, Uzbekistan came across as almost the locomotive of democratization in Central Asia. But just a month later, in January 2000, the American evaluation literally made a 180-degree turn. The State Department announced that the last elections were "neither free nor fair". What caused such a radical turn in Washington's relations with its partner? Obviously, in such a short period nothing could have changed fundamentally in Uzbekistan's political system.

Evidently, the issue was different. The reasons for the abrupt cooling in bilateral relations should be sought in the first Batkent events of the summer of 1999. After Tashkent for the first time clashed with real threats to its security, it suddenly discovered, to its extreme disappointment, that America was interested in the sovereignty and security of Uzbekistan not in principle, but only in Uzbekistan's independence from one specific country: Russia.

But it was precisely with Russian assistance that the fighters were expelled from the territory of Kyrgyzstan, thus also removing a threat to Uzbekistan, and already in November Russia and four Central Asian states conducted large-scale exercises, the goal of which was the destruction of formations of bandits that had penetrated the Ferghana Valley. One month later, Vladimir Putin, who at that time was still prime minister, signed an agreement on military-technical cooperation with Karimov in Tashkent. These movements were accompanied by Karimov's loud announcements, obviously directed toward Washington, that Russia had the right to assert its interests in the region. All of this began to cause irritation in Washington, leading to the crisis of January 2000.

In April 2000, Secretary of State Madeleine Albright was sent to the region to restore order, making promises of assistance in repelling the threats coming from radical Islamists in Afghanistan. In reality, it was during that April that Karimov finally understood what it meant to play by the American rules: in terms of financial assistance, to receive crumbs, and to clash with excessive demands for democratization, which were fraught with destabilization of the entire state and his personal removal from power.

In the Clinton administration, which was living out its last months, a feeling of complete disappointment arose concerning the so-called policy of regionalization on the territory of the CIS that the United States had conducted: The policy had not managed to plant democratic principles; economic problems, despite market reforms, had grown; interethnic conflicts had not been resolved; and corruption was rampant. In February 2000, the State Department released a report on human rights, in which all of the countries in the CIS, including the most pro-Western, received criticism. Uzbekistan was criticized for torture of political opponents, limitations on the press, and the persecution of so-called non-traditional Muslims (Wahabbis, according to the official jargon). Thereafter, this set of accusations against Karimov from Washington would become standard.

During Putin's visit to Tashkent in April 2000, the Uzbek leader announced to the just-elected young Russian president that "we are searching for defense and we have found it in Russia". One needs to remember that this tirade was intended not for Putin, but more for his American colleague.

The spring and summer of 2000 was a honeymoon in Uzbek-Russian relations: Tashkent abruptly intensified its links to Russia in the military sphere, including under the auspices of the CST, and even took part in the "Southern Shield of the Commonwealth" maneuvers on the territory of Tajikistan, conducted jointly along with other treaty participants.

After the repulsion of the second invasion of Central Asia by the Islamic militant fighters in the summer of 2000, already that fall the Uzbek pendulum swung from Russia to the West. Tashkent began to avoid meetings at the regional level and within the framework of the CIS, which could have touched upon questions of joint opposition to religious extremism. What is more, Tashkent began a rapprochement with its sworn enemy, the Taliban regime. It was not by chance that these changes coincided with the strengthening of American military aid to Uzbekistan; besides, Tashkent received a signal from Washington that the United States were beginning to change its position on a settlement of the internal situation in Afghanistan.

At the beginning of 2001, the pendulum of Uzbekistan's foreign policy froze: in the course of the entire year after a new Republican administration entered the White House, Tashkent did not know exactly how to conduct itself with the new U.S. leadership, though it did not move in the direction of Moscow. The events of Sept. 11, 2001, and the lightning operation against the Taliban and al-Qaeda in Afghanistan that followed – Russia's real and weighty contribution to which it carefully hid from the international community – gave a sharp acceleration to the Uzbek pendulum. Overnight, Uzbekistan was converted in the eyes of the United States from an outcast country, ruled by an authoritarian dictator, to America's most important ally in the war against international terrorism. In January 2002, the new strategic union was consolidated by concrete business: Three military bases, which the Pentagon stubbornly called "operational supporting points," appeared on the territory of Uzbekistan.

In March 2002, this union was cemented, so to speak, by an agreement of marriage: the United States and the Republic of Uzbekistan signed a declaration on the foundations of strategic partnership and cooperation. At this time, Karimov finally decided on his tactics of conduct with the Americans: he arrived at the conclusion that loud rhetorical announcements of an anti-Russian character, his firm reputation as a strategic partner in the anti-terrorist operations, and the guarantee of American military presence in the region gave him the right to pay no attention to criticism in the sphere of human rights and to continue his policies of tightening the screws in politics and economics. It is possible that this self-persuasion was fatal, but Karimov did not plan to retreat from his chosen path.

The period from spring 2002 until spring 2004 was the time of the greatest cooling in Uzbekistan's relations with Russia. In response to Moscow's attempts to clarify the chronological limits of the American military presence in Central Asia came an announcement from Tashkent, unprecedented in its harshness, the essence of which was that Uzbekistan had not taken upon itself the obligation to coordinate its foreign policy with anyone whatsoever. It was clear that it had Russia in mind.

Tashkent's expectations of major financial advantages from its support of the anti-terrorist operation in Afghanistan fell far short of being fully realized. The value of American aid was lowered by a considerable extent in connection with the fact that it granted not "live" money, but goods and services for which Uzbekistan often simply felt no special

need. Many programs were ineffective and carried more of a propagandistic character. But an especially great disappointment befell Tashkent in its hopes to receive significant sums of "live" money for the use of its military airfields.

The American side also had reasons for unhappiness. Such chronic problems as the Uzbek side's failure to carry out its obligations to pay off the currency credits of foreign investors, the high cost of creating infrastructure for the service of American military contingents, and corruption did not disappear. One of the most complicated problems was the question of free convertibility of the local currency, on which the Americans insisted.

In this way, one can easily note that behind the U.S. political complaints directed toward Karimov lay, in reality, unhappiness with his economic policies, which more and more the Americans considered ineffective, and thus, leading the country toward a serious crisis. In February 2004, Secretary of Defense Donald Rumsfeld visited Uzbekistan. By old habit, he called Tashkent a key member of the coalition. But such announcements already did not have their former effect on the Uzbek leadership. Indeed, one day later the State Department's report on human rights came to light, which contained an extremely harsh appraisal of the Karimov regime. Once again, out came the whip: The American Congress reduced aid to Tashkent by \$18 million. But the Uzbek pendulum already had begun its movement in the other direction. After a series of explosions at the end of March and the beginning of April 2004, Karimov at his regularly scheduled time rushed into Russia's arms.

In the course of the events in Andijan in May 2005, Karimov's regime demonstrated to the West (with the full political support of Moscow and moral support from Astana) that it was capable of decisively putting a stop to any attempts to destabilize the country, and Tashkent also unequivocally unfolded itself from the West and moved in the direction of Russia. At the first stage (in 2004), Washington's actions produced a split with the Europeans, who made called for Karimov to be presented with an ultimatum to which he should respond within a strictly defined period: either he would agree to the conduct of an international investigation, or new sanctions in the form of an embargo on arms imports and a refusal to issue visas to his diplomats would await him. But the American side did not resolve to drive Karimov into a corner, instead preferring to try to bring him into a constructive dialogue on cooperation.

In this situation, Washington and the West as a whole found themselves in a difficult position. It had become clear that a forced change in power in the conditions of Central Asia was fraught with deep upheavals and the complete destabilization of the situation in the region. However, Karimov had proven that he did not plan to conduct real economic reforms or allow the liberalization of society, but instead intended to conserve the status quo with the goal of preserving the stability of his regime and of society. Moreover, Tashkent began to nudge the United States toward withdrawal of its bases from Uzbek territory.

If American strategists had earlier expected to set a date for Karimov at the beginning of 2006, then in the new conditions Washington was forced to renounce fully its support for his regime in any form. However, beginning in 2005, the United States already were not in any condition to exert serious pressure on Uzbekistan, partly by virtue of the Russian factor. A realization of the scale of possible destabilization of Uzbekistan itself, and the entire region as a whole, was also a restraining factor.

Despite the abrupt cooling in American-Uzbek relations, warning voices were heard in strategic circles (the Department of Defense's National Defense University and the U.S. Army War College) according to which Washington was making a strategic mistake in abandoning its military bases in Uzbekistan and strengthening its criticism of Karimov's regime. These experts directed the White House's attention to the fact that Karimov's regime had proven its ability to survive and its readiness to use force in order to pressure the opposition. On the other hand, the threats with which Karimov was clashing inside his country were not simply the fabrications of his propaganda machine, but reality. This group of experts, working to convince the Pentagon, also proposed, as an alternative, devoting more attention in foreign policy to Kazakhstan, which was fully capable of stepping forward, for Uzbekistan and other states in the region, as an example of a country that had successfully realized economic reforms (with the support of the United States).

However, it was extremely unlikely that, under pressure from the pragmatic wing of the American strategic establishment, Washington's policies in relation to Tashkent would routinely make a 180-degree turn. Although this would not be without consequences for the interests of Russia, China, and all of Central Asia, the sum total of all of these factors pointed to the fact that Washington had taken the course of expecting a political regime change in Tashkent. During the summer of 2006, signs began to appear that Washington was beginning to change its policies in relation to Tashkent. Upon Assistant Secretary of State Richard Boucher's visit in August, contacts between the two sides were resumed.

Russia is certain that Uzbekistan will be its stable economic partner over the course of at least the next 30 years. In June 2004, an agreement on strategic partnership was signed between the Republic of Uzbekistan and the Russian Federation. In the text of the agreement, among other things, it was said that Russia and Uzbekistan were obligated not to take any actions inflicting harm on the sovereignty, security, and territorial integrity of the other side. The document also defined the two countries' highest priorities in military and military-technical cooperation as the following: delivering military goods from Russia to Uzbekistan and maintaining the good working condition of the republic's military equipment, to include air forces and air defenses, including the use of industrial-technical bases existing on the territory of Uzbekistan.

The revival of Uzbek-Russian relations proceeded in all directions – military, economic, and political. The bilateral rapprochement was promoted by a series of so-called orange revolutions delivered by Washington, which was already, for all practical purposes, not even hiding its intentions to conduct, over the shortest period, a cleansing of former communist secretaries from the CIS. After the events in Ukraine, Karimov had virtually no remaining illusions in relation to American strategists. The events in neighboring Kyrgyzstan only strengthened him in his certainty that he should resist revolutionary pressure. Therefore, he was fully prepared, morally and psychologically, for the uprising in Andijan, just as he was also prepared for the criticism from his American ally.

Moscow used, in full measure, the difficult situation into which Tashkent fell as a result of its complicated external and domestic political and economic situation, in order to strengthen its influence in Uzbekistan and to secure Russian economic interests. Thus, the logic of this course of events

nudged Russia toward support of Karimov in the event of growing pressure on him from the West.

In the current period (2005-2006), bilateral relations between the Republic of Uzbekistan and the United States are at their lowest level since Uzbekistan's independence. The possibility that the United States might make long-term efforts to overthrow Karimov cannot be ruled out. At the same time, it would still be possible for Tashkent to conduct a rapprochement with the United States, if Karimov would accept the West's conditions of liberalizing his regime.

Relations between the People's Republic of China and Uzbekistan take place in two spheres: economic and political. During the first stage of independence, Karimov proclaimed Tashkent's orientation toward the "Chinese model" of state capitalism. However, this course did not lead to the strengthening of tight political ties. In fact, the stationing of American military bases on the territory of the Republic of Uzbekistan in 2001-2002 led to the freezing of relations and to the appearance of serious distrust on the part of Beijing in regard to Tashkent's intentions. At the same time, the Chinese leadership reacted with understanding to Uzbekistan's struggle against Islamic radicals. After the SCO summit in 2005, Uzbek-Chinese relations were stepped up in all directions.

Following the crisis in Uzbek-American relations, Tashkent's multi-vectored policies acquired a new dimension. The rapprochement with Moscow that had already begun was intensified: Uzbekistan joined the Eurasian Economic Association and began to signal its readiness to return to the CSTO. The possibility arose that the processes of integration in the CIS, including in Central Asia, would be continued with Tashkent's participation. In parallel with these developments, Uzbekistan drew closer to China in the economic and political spheres. But its spoiled relations with the West – the United States and Europe – make Tashkent's multi-vectored policies lopsided.

The main partners of Kyrgyzstan, upon which its security, economic development, and domestic stability depend, are its immediate neighbors – Kazakhstan, Uzbekistan, and China – and also such powers as Russia and the United States. In such conditions, the main foreign policy task of Askar Akaev always was balancing among them. An especially acute problem of maintaining balance among them stood before Bishkek after the events of 2001-2002 and the beginning of the Western military presence on the republic's territory. As the first order of business, the task of maintaining good relations with Moscow stood before Akayev. This task was successfully resolved by granting Russia the military air base at Kant.

As a whole, Kyrgyzstan's foreign policy, in general terms, resembles the multi-vectored policies of Kazakhstan, only in a less consistent version. Bishkek's foreign policy course is determined by several factors, among which are its proximity to unstable Tajikistan and Uzbekistan; the presence, over a long period of time, of Islamist threats; the existence of highly developed drug trafficking; and so on. Despite its list in the direction of the West in 2001, Kyrgyzstan tries to maintain good relations with Asian and Muslim countries: China, Pakistan, Turkey, India, and Iran.

One constant in Kyrgyzstan's foreign policy is Bishkek's support for stable, good-neighborly relations with Kazakhstan, as well as its participation in all processes of integration in the framework of the Central Asian region and the CIS.

From the very beginning, Kyrgyzstan's foreign policy had every opportunity to become multi-vectored. All of the

preconditions for this existed. From the first days, Bishkek was shown kindness by the West, which saw in it a democratic model for the whole region. During this first stage, the United States, Europe, the OSCE, the IMF, and the World Bank provided significant support to Kyrgyzstan. At the same time, Bishkek maintained excellent relations with Russia and Kazakhstan and actively participated in all integrative formations in Central Asia and the CIS. China was also interested in the development of relations with Kyrgyzstan, regarding it as a transport corridor in the region. However, Kyrgyz-Uzbek relations had a destabilizing influence.

Today, Kyrgyzstan's relations with Russia include three main directions: 1) military cooperation; 2) the position of the Russian-speaking population and the Russian language in the republic; and 3) trade and economic relations and integration within the framework of the Eurasian Economic Association. In all, moving toward a compromise with Moscow on military-strategic issues, Akayev managed to strengthen his domestic and foreign policy position, restore balance between the United States and Russia, and strengthen national and regional security. Russia, despite the radically changed geopolitical situation in the region after 2001, considers Kyrgyzstan to be a springboard for the restoration of its geopolitical and economic influence in Central Asia.

China attached great significance to military cooperation with Kyrgyzstan, which it viewed, taking into account that Kazakhstan was oriented toward Russia and Uzbekistan toward the United States, as the weakest link in Central Asia for its direct military penetration. As a whole, there is no reason to doubt that China is using Kyrgyzstan for the realization of its grandiose transport and communications plan – the so-called third, and shortest, version of the Silk Road.

The People's Republic of China's policies in relation to Kyrgyzstan are built on the achievement of three main goals: 1) not allowing the territory of the republic to become a base for Uighur separatists; 2) supporting projects to construct transport corridors through Kyrgyzstan; and 3) encouraging Chinese trade expansion in Kyrgyzstan and throughout the region, as well as demographic penetration through Kyrgyzstan into the countries of the CIS (the Republic of Kyrgyzstan and the People's Republic of China share a visa-free regime). Both countries have actively cooperated in the military sphere since 1996.

Thus, it is not out of the question that Kyrgyzstan, until the defined moment, held a special place in the Republic of China's Central Asian strategy in the capacity of a transport bridge in the region and, possibly, a training ground for military cooperation and military penetration. However, the geo-strategic activity of the United States and Russia in Kyrgyzstan leaves China with fewer opportunities for large, independent games in the region. Besides, Beijing has arrived at the conclusion that Bishkek cannot independently exert influence in such a way as to improve the People's Republic of China's strategic position in Central Asia.

The United States is one of the largest donors to Kyrgyzstan. In the republic, practically all establishments and regions are included in the process of cooperation with the Americans. After 2001, Kyrgyzstan was valuable in the eyes of the United States above all thanks to its strategic position and the military air base at Manas. The United States has concrete military-strategic interests in Kyrgyzstan, the most important of which is the Ganci military base, which is located on the territory of Manas international airport near Bishkek. Military-transport airplanes, refueling airplanes, and various other military equipment, as well as more than

1,000 American servicemen, are stationed here. The military base is used for rear provision and support for the forces of the anti-terrorist coalition in Afghanistan.

The United States and other Western countries have continued to increase their aid to Kyrgyzstan. In particular, during the 2001-2002 fiscal year, the volume of military aid to Kyrgyzstan approved by the U.S. Congress amounted to \$11 million in all. In 2002-2003, this volume increased significantly. For its part, the West from time to time has used the theme of democracy in order to put pressure on official Bishkek. Another issue that caused concern for Washington was the continuous threat posed by radical Islam.

As is well-known, the situation in the republic radically changed at the end of March 2005. Overall, the West welcomed the "colored revolution" in Kyrgyzstan, though with reservations. In June 2005 Kirmanbek Bakiyev, who had come out in favor of expanded cooperation with the West, became president of the republic. However, in June he endorsed the joint SCO declaration, which contained the demand that the American military presence in the region be ended.

However, just a short while later, Bishkek for all intents and purposes disavowed its participation in the essentially anti-American SCO statement. During U.S. Secretary of Defense Donald Rumsfeld's visit to the region, Kyrgyzstan confirmed that it would maintain the American base at Manas. In the fall of 2005, negotiations to revise the financial conditions for renting Manas began, during which the Kyrgyz side put forward a demand to increase the rental payments. During Assistant Secretary of State Richard Boucher's visit to Bishkek in August 2006, the American side proposed a compromise: writing off Kyrgyzstan's debts to international financial institutions in return for maintaining the previous rental payments. This preceded the aggravation in bilateral relations, which were expressed in the deportation of American diplomats from Kyrgyzstan, and of Kyrgyz diplomats from the United States.

It was assumed that, owing to the weakness of the new regime and to its economic problems, Kyrgyzstan will maintain the U.S. presence on its territory. For Washington, the Ganci base at Manas has great strategic significance, going far beyond the anti-terrorist operation in Afghanistan. In fact, we are speaking of the maintenance of a level of geopolitical pressure on Russia, and especially on China. In this connection, the United States will strive to maintain its presence and provide support to the new regime, while turning a blind eye to the problems of human rights and democracy in this republic.

It is obvious that, considering the position and size of Kyrgyzstan, as well as its dependence on its neighbors, priority number one for Bishkek is maintaining good relations with Kazakhstan, Uzbekistan, and Tajikistan. The specter of Kyrgyzstan's interests encompasses such spheres as economics, communications, energy, migration, and security. For all intents and purposes, Kyrgyzstan is totally dependent on its neighbors. This is an objective factor that will influence the country's foreign policy continuously.

It is natural that Kyrgyzstan is interested in maintaining efforts at integration within all parameters: in the framework of the Central Asian Economic Union, the Eurasian Economic Association, the CIS, SCO, and other organizations. However, Bishkek is forced to balance constantly among various tendencies of regional development and centers of power: between Russia and the West, Moscow and Beijing, Astana and Tashkent, Uzbekistan and Tajikistan.

In recent years, the main goal of Bishkek's regional policies has been the realization of various transport-communications projects, which would connect all of the Central Asian states with external markets. A necessary condition for these projects is the participation of Kyrgyzstan, which would be a key segment. Another of Kyrgyzstan's goals is the formation of a common economic space in Central Asia.

Kyrgyzstan's relations with Kazakhstan have a multilateral character. Among Bishkek's highest priorities for cooperation are economic issues, labor migration, and high-level political relations. Despite the outwardly satisfactory character of Kazakh-Kyrgyz relations, and the constant declarations of their "brotherly" character, problems of trade and economics have regularly arisen and still arise.

In contrast to the Kyrgyz Republic's relations with Kazakhstan, Kyrgyz-Uzbek relations assume a more complicated and contradictory character. They touch upon not only the full complex of bilateral and regional connections (ethnic, economic, transport-communications, cultural, and others), but they also adjoin with great-power politics, touching upon the interests of the United States, Russia, and China, and they are also connected with the problems of domestic security in the Kyrgyz Republic.

Akayev's foreign policy was always directed toward joining in the regional affairs of the big players (Russia, the People's Republic of China, and the West) as a guarantee of the Kyrgyz Republic's independence. Maintaining a balance between Kazakhstan and Uzbekistan is an extremely complex goal of Kyrgyzstan's foreign policy. This goal maintained its character under the country's new leadership.

It is difficult to speak of multi-vectoredness in relation to Tajikistan. The strategic and international position of the republic is determined by its proximity to Afghanistan, by its total (until recently) dependence on Russia, by its cultural-historical bent toward Iran, by its position in the system of drug trafficking, by the Islam threat, and by the anti-terrorist operation in Afghanistan.

In the course of his visit to the United States in 2002, Imamali Rakhmonov received major political overtures from the White House: cooperation in the military sphere for two years, broad financial aid, and other offers. The sides did not reach agreement behind closed doors on the management of the Russian military base in the event of military activities. The impression developed that Tajikistan had taken a course of full and abrupt reorientation of its foreign policy course. This was confirmed by the fact that Washington, for all intents and purposes, closed its eyes to the extension of Rakhmonov's term of presidential power.

Tajikistan has great significance from the perspective of the anti-terrorist operations in Afghanistan, the tight links between Dushanbe and the Northern Alliance, in connection with the drug problem, and also as a result of the positioning of Russian forces (the 201st Division) in the republic. Throughout 2002, an entirely clear tendency in the policies of the United States and its coalition allies came to light, aiming at the ouster of Russia's military presence from Tajikistan.

President Rakhmonov, while attempting during 2003 and 2004 to balance between Washington and Moscow, found himself in a trap of his own making: having turned to the West, he did not find in it a reliable partner, and he may have lost an ally in Russia. It is rather difficult to evaluate the full

scale of problems in Russian-Tajik relations. However, it is obvious that the problem of withdrawing border guards was only the tip of the iceberg. Behind this lay serious Russian business and strategic interests.

In 2004, Russian demonstrated in Tajikistan a new approach, which it had tested in a trial version the previous year in Kyrgyzstan: military bases in exchange for investment. Russian big business received not only the largest and, theoretically, the world's cheapest strategic hydro resources, but also the opportunity to strategically influence all of the region's energy policies in the future. Recently, Moscow has managed to noticeably strengthen its position in Tajikistan. If earlier Russian interests in this republic were concentrated primarily around the problem of security, border defense, and putting a stop to the drug trade, then at this new stage Russia is striving to consolidate its economic presence in Tajikistan.

On the territory of Tajikistan, a NATO military air base was stationed at Dushanbe. A French military contingent was the main force stationed there. Military transport airplanes of the French Air Force and more than 120 servicemen were permanently stationed there. Great Britain finances a program of English-language study at the military lycée and at the republic's military institute, and every year a group of Tajik officers receives training at special British military educational institutions.

Tajikistan was the last of the post-Soviet countries (not counting neutral Turkmenistan) to join NATO's Partnership for Peace. The Tajik side is currently counting on receiving military-technical assistance, which is extremely relevant for a country considering itself an outpost in the struggle against the drug trade and international terrorism in Central Asia. In this connection, Dushanbe is already considering plans for its military specialists to receive training in NATO countries' academies, where they would receive support in the spheres of defending the environment and responding to emergency situations. But for Dushanbe, giving an impulse to military reform in the country is the most important consideration.

In relation to Tajikistan, the People's Republic of China's interests can be formulated in chronological order according to the time at which they arose: border delimitation, the struggle against terrorism and the drug trade, transport-communications projects, and energy. During the first stage of Tajikistan's independence, separated from Tajikistan by a high mountain range, China was on the periphery of this young state's economic interests. For its part, because of its internal civil strife, Tajikistan did not interest Chinese businessmen. During the contemporary stage of relations, expecting to significantly expand their bilateral economic links, Dushanbe and Beijing are exerting their efforts to create reliable communications between the two countries.

Tajikistan probably will remain, for a rather long time, an arena of opposition by territorial-clan groupings and, simultaneously, an object of influence by the forces of militant Islamic extremism in its struggle against "post-communist authoritarian regimes" in the Central Asian republics. This factor, for its part, will define the interest by the West and Russia in maintaining their military presence.

Turkmenistan's foreign policy can be characterized not so much as multi-vectored, but as "anti-vectored." Since the beginning of the 1990s, the regime of Saparmurat Niyazov has insisted on its "neutrality."

Turkmenistan holds a special place in Central Asia and attracts interest thanks to two factors: first, its enormous

supply of hydrocarbons, above all its gas resources, and secondly, the odious regime of Niyazov's personal power. Turkmenistan is the largest producer of natural gas in Central Asia. Apart from Russia, Ashgabat is establishing tighter links with its southern and western neighbors, in particular with Turkey. For all intents and purposes, Niyazov has renounced cooperation within the framework of the CIS, having reoriented the country toward connections with Iran, Turkey, and the Arab states. He ignores the CIS summits of the heads of states and governments.

Throughout the past few years, Ashgabat has participated in negotiations and has shown interest in realizing a number of pipeline projects. This factor exerts a direct influence on the foreign policy priorities of Turkmenistan. Niyazov came out against the strategically significant plan to synchronize the energy systems of Europe and the CIS.

Relations are extremely complicated between Niyazov and the West, which constantly criticizes Ashgabat for numerous violations of human rights and despotic rule. In these conditions, Turkmenbashi is further intensifying his course of isolating his country from the outside world. One more factor should be noted: as it does in all aspects of the country's life, the personal qualities of Turkmenistan's leader and the distinctive features of his character and psyche exert a strong influence on the country's foreign policy.

At the present time, Russian-Turkmen relations appear outwardly stable, despite a number of crisis points in their recent history. The largest crisis was the events of 2003, connected with the cancellation of Russian-Turkmen citizenship. Right down to the end of 2003, Russia more than once expressed its concern with discrimination against ethnic Russians in Turkmenistan. Niyazov, under pressure from Moscow, used the gas factor to achieve his goals. As a result, on April 10, 2003, Presidents Putin and Niyazov signed two documents in Moscow: an agreement on the delivery of Turkmen gas to Russia for 25 years and a protocol on the cancellation of dual citizenship.

Russia's goal is obvious and consists of strengthening its position as Turkmenistan's main partner in the energy sector and thus maintaining control over the export of Turkmen gas. Not all of Russia's efforts directed toward expanding cooperation with Turkmenistan in the energy sector have brought success. Thus, Russia's policies in relation to Turkmenbashi's regime assume a contradictory character. On the one hand, Niyazov's extreme policies could not fail to arouse irritation in Moscow – first of all, in relation to the Russian-speaking population. But on the other hand, Russia cannot sacrifice its economic and energy interests by spoiling relations with Ashgabat. The prospect of Russia taking part in collective pressure on Niyazov's regime, together with the West, cannot be ruled out.

After the Kazan summit of the CIS in August 2005, political leaders in the Commonwealth began to accept the idea that Ashgabat had taken a course of fully exiting from the organization. As commentators noted, Niyazov not only did not attend, but he gave his comrades in the CIS a slap in the face, sending in place of himself his former bodyguard Akieva, who had been named vice premier only a month earlier. Ashgabat is striving to develop its relations with a number of CIS countries on a bilateral basis. For Turkmenistan, Ukraine takes a special place in these efforts. Relations between Ashgabat and Baku remain complicated. The first is conducting a course of

strengthening its own military power in the context of the existing dispute over the Caspian and has been forced to develop its military-technical cooperation with its partners in the framework of the CIS.

Relations between Uzbekistan and Turkmenistan were seriously spoiled as a result of the events of November 2002, when, according to Ashgabat's version, an assassination attempt was made against Turkmenbashi. The conflict advanced so far that reports of the beginning of military preparations by both sides began to arrive from the Turkmen-Uzbek border. It did not come to that, but a deep cooling took place in relations between Ashgabat and Tashkent. However, since 2004, tendencies toward normalization of bilateral relations have appeared. In 2004, Presidents Niyazov and Karimov signed an agreement in Bukhara regulating issues such as a simplified customs regime; the equal use of water resources; irrigation, energy, and transport establishments; and the use of water in such a way as to conserve resources.

Turkmenistan represents, from the point of view of the United States, a typical "outcast state," which has renounced active support for the anti-terrorist coalition, is involved in drug smuggling, conducts harsh repressive policies internally, and in its foreign policy maintains good relations with Iran. Turkmenistan, as is well known, refused to grant the Western allies in the anti-terrorist coalition a supporting point for airplanes providing assistance to the international contingent in Afghanistan. In so doing, Ashgabat cited its neutral status, which imposes upon it "defined obligations before the international community".

However, despite the extremely negative image of Ashgabat in the eyes of the West, the United States, as far as is known, for all of these years has not taken noticeable steps to overthrow Turkmenbashi's regime. One may suppose that this situation is a result of a number of foreign policy factors that have taken shape: first of all, as a result of a secret understanding with Moscow, the unresolved Caspian issue and the BTC project, the proximity of Iran and threats of interference from its side, as well as other reasons.

The United States emphatically welcomes and encourages any, even the most absurd, of Niyazov's plans to construct alternative pipelines bypassing the territory of Russia. Despite the collapse, for all intents and purposes, of the Trans-Caspian gas pipeline project, today Washington is providing support for the project to build a gas pipeline from Turkmenistan to Pakistan and beyond to India. In the economic sphere, Ashgabat's relations with the United States are merely symbolic. Since 2002, an agreement has been in effect on the use of Turkmen airspace and the Ashgabat international airport by U.S. military-transport planes for refueling airplanes transporting humanitarian cargo to Afghanistan. In August 2005, it was reported that the main goal of negotiations was the question of creating American military bases on Turkmen territory close to the borders of Iran and Afghanistan.

At the international airport, the Americans created a closed terminal. Turkmen representatives do not have access to the territory of this closed terminal and do not know what happens there. It has been reported that the cargo transported by the Americans through Ashgabat has not just a humanitarian, but a purely military character.

Turkmenistan's relations with Turkey have a specific character. For Turkmenistan, Turkey is a closely related Turkic country (Oguz roots); for many years, Ankara pro-

vided support for the cultural development of the republic and financial-economic assistance to Ashgabat. Turkey is an essential participant in all pipeline projects from Turkmenistan in the western direction. Turkmenistan has developed traditionally good-neighborly relations with Iran, concerning mainly questions of economic and energy cooperation. Agreements have been signed concerning the delivery of Turkmen gas and electric energy to its southern neighbor.

In the initial period following Turkmenistan's independence, relations between Beijing and Ashgabat had, for the most part, only a representative character, and neither country showed significant interest in the other. This was especially noticeable from China's side. Then, its policies began to change, and the Chinese leadership showed increased interest in Turkmenistan because of its geopolitical position (its borders with Afghanistan and Iran) and its natural wealth. Gradually China began more actively to put into practice one of the main directions of its foreign policy course – specifically, the strengthening of its position in its rivalry with other countries.

For Turkmenistan, the People's Republic of China is on the periphery of its political and economic interests. In connection with this, the realization of plans for the laying of a pipeline from Turkmenistan (through Kazakhstan and Uzbekistan) to the People's Republic of China represents a long-term prospect. But in 2006, a corresponding agreement was concluded between Ashgabat and Beijing.

The peculiarity of Turkmenistan's international position is that the Niyazov regime needs not only an ally, but a protector. In principle, there are a few countries that theoretically could become such a protector for Turkmenistan. These include the ethnically related Turkey and neighboring Iran, which are rapidly evolving into regional superpowers, and also the United States and Russia. However, the United States and Turkey cannot occupy the necessary position in relation to Turkmenistan, both for ideological reasons and because it is not possible that they will finance the regime's needs for maintaining power within the country. Iran falls off for the same reason – that it is impossible for it to support the Niyazov regime by buying gas in sufficient quantities. Moreover, an Iranian protectorate could become burdensome and dangerous for Turkmenistan. Practically the only possible candidate that is acceptable for everyone is Russia.

Moscow is capable of financing Niyazov's regime by purchasing gas from him. Moscow has no ideological basis to be upset about Turkmenistan's renunciation of the concept of modernization. By a number of parameters, the primary one of which is gas, Turkmenistan's foreign policy could be characterized as "masked single-vectoredness".

It seems to be, looking middle-term perspective after the death of Niyazov in December 2006, the Turkmenistan foreign policy would not be changed radically.

And so, is multi-vectoredness a blessing or a forced necessity, a choice made out of free will or an ingenious strategy? Probably, all of these elements are present to a limited extent. Upon a sound reflection, the need to stress multi-vectoredness in these countries' foreign policy doctrines will fall away in time all by itself, insofar as the foreign policy of any existing state is multi-vectored by its nature. When Kazakhstan and the other countries of Central Asia finally win the right to call themselves independent and developed states, then the need to underscore their so-called "multi-vectoredness" will disappear.

Constructing Bilateral Partnership with Kazakhstan under the Framework of Central Asia Plus Japan Dialogue*

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It is my great honor to visit KISI and make a presentation here in this conference. Goal of my presentation here is to summarize the development of Japan's approach toward Central Asia. In short, it is a summary of Japanese stance searching its multilateral approach to the region¹.

FROM EURASIAN DIPLOMACY TO CENTRAL ASIA PLUS JAPAN DIALOGUE

The first step of Japan's multilateral approach is Prime Minister Ryutaro Hashimoto's "Eurasian diplomacy" in 1996. With this slogan, Japan tried to construct effective relationship with whole Eurasian countries with directions for cooperation, such as, (1) political dialogue aiming to enhance trust and mutual understanding; (2) economic cooperation as well as cooperation for natural resource development aiming to foster prosperity; and (3) cooperation to build peace through nuclear non-proliferation, democratization and the fostering of stability. As a part of the grand design, he also stressed the importance of diplomacy toward Central Asian countries. "Silk Road diplomacy" is independently used as a term emphasizing Japanese diplomacy to Central Asia.

After Hashimoto went out from his position as prime minister, ideas of the Eurasian diplomacy was slowdown in fact. But Japan is trying another multilateral approach since 2004: Central Asia plus Japan (CAJ) dialogue. It is an evolution style of Silk Road diplomacy. Although this process started with Foreign Minister Kawaguchi's round visit among Central Asian countries from August 25 to 31.

After her policy speech in Tashkent on her way of the round trip, subjects of CAJ dialogue were classified systematically at the first senior officials' meeting (SOM) in March 4, 2005. The dialogue will be pursued through the five pillars

of (1) political dialogue, (2) intra-regional cooperation, (3) business promotion, (4) intellectual dialogue and (5) cultural and people-to-people exchange. While stressing the importance of intra-regional cooperation for realizing peace and stability and economic prosperity, SOM listed ten possible areas of intra-regional cooperation including counter-terrorism, drugs, mines, environment, water, energy, etc.

The current foreign minister, Taro Aso, succeeded and developed these principles and pillars of the dialogue. For example, in his policy speech entitled "Central Asia as a Corridor of Peace and Stability" on June 1, 2006, he stressed the following guidelines governing Japan's diplomatic relations with Central Asia: (1) approaching the region from a broad-based perspective, (2) supporting "open regional cooperation" and (3) seeking partnership rooted in holding universal values (democracy, the market economy, the safeguarding of human rights, and the rule of law)². Aso evolved the policy in the sense that he puts forward "universal values" more strongly than the Kawaguchi's speech in Tashkent two years ago that just emphasized "the crucial nature of the development of human rights and democratization in Central Asia." As the result of the second ministerial meeting in June 5, 2006, member states released an action plan for the CAJ dialogue. It listed up concrete plans to develop the each pillar mentioned above, especially the pillar of intra-regional cooperation.

KEY ISSUES FOR THE RELATIONSHIP BETWEEN JAPAN AND CENTRAL ASIAN COUNTRIES

Relationship between Japan and Central Asian countries including Kazakhstan reached the new step with the kick off of the CAJ dialogue. By using this framework, Japan

* The article was presented by the author at the workshop: «Kazakhstan - Japan Cooperation: Present State and Prospects», December 5, 2006, Almaty, Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan.

¹ Author will publish another paper about the same issue, explaining more detailed facts of debates and policy-making processes inside Japan. See, Takeshi Yuasa, "Japan's Multilateral Approach toward Central Asia," in Akihiro Iwashita (ed.), *Eager Eyes Fixed on Slavic Eurasia: Change and Progress*, Sapporo: Hokkaido University Press, forthcoming.

² Aso enhanced his idea on diplomatic approach toward Eurasia at the following latest speech. See, "Arc of Freedom and Prosperity: Japan's Expanding Diplomatic Horizons" (Speech by Mr. Taro Aso, Minister for Foreign Affairs on the Occasion of the Japan Institute of International Affairs Seminar, November 30, 2006).

made its way clear to respect multilateralism for the future development of regional cooperation among Central Asian countries. The CAJ dialogue would be more institutionalized strictly and strongly, than the previous Japanese diplomatic slogan, Eurasian diplomacy, because of its character to construct with bottom-up decision-making process inside of Japanese government, especially in the Foreign Ministry. Prime Minister Koizumi's visit to Kazakhstan and to Uzbekistan in August 2006 was a memorial event symbolizing the matured relations with these countries bilaterally. It also related indirectly the multilateral process of the CAJ dialogue.

Although the process is matured, there is still a lot of obstacles for all concerning states of the framework for the development of regional cooperation. We have still several subjects to overcome these obstacles. Here I want to pick up several major issues (mainly, issues for Japanese side) regarding such problems:

(a) Necessity for Long-Term Strategy

First of all, Japan has not presented its long-term strategy for the CAJ dialogue continuously, and as a result, Japan neglects to review its strategy coping with the renewal situation of the regional security. When the CAJ dialogue had started, it was a quite unique multilateral framework, as a form led by major country searching for its engagement to resolve common regional problems in Central Asia. However, after that, frameworks such as "Central Asia plus Russia" and "Central Asia plus Russia and China" have reshaped and been strengthened, that is, enlargement of the Collective Security Treaty Organization (CSTO) and the Eurasian Economic Community (EurAsEC), and institutionalization of Shanghai Cooperation Organization (SCO). Japan should reassess such changing regional security environment, and map out its course constantly, especially regarding how link with the future orientation of the CAJ dialogue.

(b) Linkage with the Strategy with Other Countries

Second, so far, Japan does not have any concrete idea how its initiative on the CAJ dialogue links (or, does not link) with the other regional strategy of major powers, especially with the strategy of the United States. Informally, the United States indicates its initiative entitled "Greater Central Asia Partnership," settled as a report of think-tank under the Johns Hopkins University³ and further continuous discussions. On the other hand, as the results of excellent diplomatic efforts, Kazakhstan is estimated as the "best partner in Central Asia" for the United States. I think it is possible for both Japan

and Kazakhstan mutually to search and construct regional cooperation with the understanding of the United States.

(c) More Policy-Oriented ODA

Third, Japan should review step-by-step the grand strategy of its official development assistance (ODA) toward Central Asian countries. Recently, Japanese experts wrote up the renewal programs of ODA toward Kazakhstan and Uzbekistan⁴. It was concluded September 2006 through the discussion of the ODA General Strategic Conference, Special Committee on Foreign Economic Cooperation under the Liberal Democratic Party of Japan.

According to the project, Japan's goal within coming three to five years is (1) further promotion of market economy in Kazakhstan, (2) continuity of economic development, (3) reinforcement of the ability to absorb assistance with the stability of macro economics and the efficiency of formal sector, and as the result of such policies, (4) Japan will encourage Kazakhstan to apply its governmental fund to social policies such as easing the poverty, to secure ecological condition, or to promote industries.

Based on such orientations, the project stresses several important fields for Japan's assistance toward Kazakhstan; (1) policy-making, institutionalization, and fostering of skillful staff for sustainable economic development, (2) arrangement and maintenance of economic and social infrastructures including regimes of cooperate governance or management, (3) ecological security and support for the rural development and health and medical care to correct the rural area gaps, (4) promotion of intra-regional cooperation of Central Asia.

I believe that this is the best project as Japan's grand picture of development assistance toward Kazakhstan. On the other hand, however, from the position as political scientist, I have an ambition that someday such economic development-oriented project for assistance should be revised and changed to more policy-oriented one. Or, with such economic assistance perspective, Japan should search more active political dialogue and security cooperation with Central Asian countries. As Japan's ODA Charter decided by Japanese cabinet in August 2003 argues, we are in "a new environment, grappling with a multiplicity of problems," including not only "the gap between the rich and poor," but also ethnic and religious conflicts, terrorism, suppression of freedom, human rights, and democracy⁵. Japan and Central Asia led by Kazakhstan can share such interests mutually and cooperate equally for further development.

³ S. Frederick Starr, A 'Greater Central Asia Partnership' for Afghanistan and Its Neighbors, Silk Road Paper, March 2005, Washington, D. C.: The Central Asia-Caucasus Institute and Silk Road Program, Paul H. Nitze School of Advanced International Studies, 2005, 36 pp.

⁴ Japan's Country Assistance Program for the Republic of Kazakhstan (http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjyo/pdfs/e_kz.pdf), Japan's Country Assistance Program for the Republic of Uzbekistan (http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjyo/pdfs/e_uz.pdf). The task-force of the program consisted with staff from donor organizations (Japan International Cooperation Agency [JICA] and Japan Bank for International Cooperation [JBIC]), the Ministry of Foreign Affairs, both Embassies of Japan to Kazakhstan and to Uzbekistan, and experts from several universities and institutes. Author was also a member of the task-force.

⁵ <http://www.mofa.go.jp/policy/oda/reform/charter.html>

The Emergence of Islamic Movement of Uzbekistan: Theoretical Explanations.

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INTRODUCTION

Why do Islamist terrorist organizations emerge? This question was inspired by the appearance of Islamic Movement of Uzbekistan (IMU) in Central Asia. Since the end of the 1980s, Central Asian states have faced the emergence of terrorist Islamist organizations. This trend has become particularly noticeable after the breakup of the Soviet Union and was equally important in all five Central Asian states of the former Soviet Union: Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan. However, the emergence of Islamist terrorist organizations only took place in Uzbekistan. The reasons for this lie in the country's social, economic and political trajectories. Militant Islam has not existed in Central Asia since the seventh century when Arabs brought their religion to the region. The radicalization of Islam and the emergence of terrorist organizations in Central Asia are modern trends.

For the last decade Central Asian states have undergone profound economic and political changes caused by the collapse of the Soviet Union. Central Asians societies experienced sharp declines in the living standards, social disintegrations, and deep ideological vacuums that led to the identity crises both, for the elite and society at large. The collapse of the Soviet Union exacerbated various social cleavages in each Central Asian country, revealing weak societal cohesion. Ethnic, clan and religious rivalries within each state undermined the legitimacy of the secular regimes and national security of the state. For that reason, Islam as a traditional religion of the Central Asian societies has become principally important. Many people turned to Islam as a source of a new identity that would unite them not only with their conationals but with the entire Muslim world. However, secular regimes that replaced communist government perceived Islam as a threat to their power. In particular, repression of religious organizations in Central Asia caused their radicalization and forced them to use previously forbidden forms of violence.

External factors were equally important in the radicalization of Islam in Central Asian region. Penetration of radical ideas, literature, and the rise of Islamist organizations became possible under Gorbachev's "perestroika" when more opportunities emerged for people to mobilize. The process deepened and accelerated in the beginning of the 90s after the fall of the Soviet Union. The war in Afghanistan and later in Tajikistan exacerbated the rise of militant Islam in Central Asia.

This paper focuses on the causes of the emergence of the Islamic Movement of Uzbekistan, the Salafi Jihadist Islamist organization that acted mainly in Uzbekistan but had extensive networks with international terrorist organizations including Al-Qaeda, in the late 1990s. I will argue that although Relative Deprivation Theory and Repression Theory capture part of the causes of the emergence of a terrorist Islamist organization in Uzbekistan, they do not give a comprehensive explanation of the rise of Islamist militant organizations. Each theoretical perspective addresses only a limited set of factors that cause the emergence of radical Islamist organizations in Central Asia. Terrorism is a complex phenomenon and cannot be explained by one theory or from one level of analysis. It demands an approach that would take into consideration many variables at different levels to account for the emergence of Islamist terrorist organizations. Therefore, I would argue that Insecurity dilemma theory is most compelling in explaining the rise of terrorist Islamist organizations in Uzbekistan. The strong side of the theory is that it incorporates various factors at different levels of analysis: individual and collective. Insecurity dilemma theory claims that security threats emanate internally for weak states. Weak states usually lack social cohesion and legitimacy of the government; however, they might have a high level of state repression and a high level of grievance among the population. These characteristics will be considered in the context of Uzbekistan, where the Islamic Movement of Uzbekistan emerged.

This paper is structured in three parts. In the first section I will review the contributions and problems of existing literature pertaining to the issue of the emergence of terrorism in Central Asia and the Islamic Movement of Uzbekistan. In the second section I will present three competing approaches that explain the emergence of terrorist Islamist organizations in Central Asia: Relative Deprivation Theory, Repression Theory and Insecurity dilemma theory. In the third section I will develop a case study on Uzbekistan and, finally, I will conclude with policy recommendations.

LITERATURE REVIEW

There is some literature that considers the revival of militant Islam in Central Asia, its roots and causes. Most of them are empirical works with less theoretical background. Among them is the book by Ahmed Rashid "Jihad. The Rise of Militant Islam in Central Asia". The author argues that the main reason of the emergence of radical Islam in Central Asia is due to the repressiveness of the Central Asian regimes, particularly in Uzbekistan. The latter is the

leading actor in terms of prosecution of all forms of Islam in Central Asia. Radical Islamic organizations take advantages of the ongoing socio-economic crisis in the countries, blaming on secular authoritarian regimes. The leaders of the regimes respond with increased repressions fearing to lose their power. Rashid also focuses on the activities of the main radical Islamic organizations of the region: the Islamic Movement of Uzbekistan, Hizb ut-Tahrir, and the Islamic Renaissance Party of Tajikistan. Although the author provides certain details of the development of radical Islam in Central Asia, his approach is narrowly focused. Rashid does not take into account other important factors such as the crisis of identity or external influence of Islamic organizations on the region.

Another author, V. Naumkin, in the book "Radical Islam in Central Asia: Between Pen and Rifle" traces the roots of Islamic radicalism in Central Asia to the beginning of the twentieth century. His main argument is that militant Islam has existed in Central Asia since 1917 as a resistance movement to the Bolsheviks in Central Asia. Naumkin contends that the rise of militant Islam in the region is due to a combination of different factors. Poverty, unemployment, corruption, authoritarianism, and social inequalities have established the background for the re-Islamization of Uzbekistan. However, other important factors such as the higher religiosity of Uzbekistan, the nationalistic policies of the government in the post-Soviet period, and the fact that the country was and is the historic center of the Islamic culture in Central Asia have contributed significantly to the emergence of the Islamic Movement of Uzbekistan. He also draws connections between organized crime and militant Islamic groups. Thus, Naumkin tries to incorporate a vast array of factors to explain the re-Islamization of Uzbekistan.

In the book "Political Islam in Central Asia", V. Ushakov reflects on the possibility of the creation of Islamic State based on Shari'a in the Central Asian region. He argues that the growth of political Islam in Central Asia was a reaction to deep political, economic, and social crises in Central Asia, which were compounded by external factors such as globalization, change in the geopolitical balance, and the process of modernization. He comes to the conclusion that although the region faces the rise of Islam, there are no objective preconditions for the creation of an Islamic State in Central Asia in the near future.

Graham Fuller also raises the problem of prospects for the future of political Islam in the world. In his book "The Future of Political Islam," the author investigates the links between Islam and terrorism, politics, culture, and globalization. He comes to the conclusion that Islam is not an ideology and it cannot be viewed as an alternative to democracy or socialism. For Fuller, Islam is a religious-cultural-political framework. The same problems are raised by Menteshashvili in the book "Islamic Revival in the North Caucasus and Central Asia".

The other authors consider the role of Islam in the daily life of Central Asian societies. Martha Olcott and Poliakov, in the book "Everyday Islam: Religion and Tradition in Rural Central Asia," discuss two levels of ideology – the state and the "family" ideology, arguing that traditionalism plays a key role in Central Asian societies. In another book "Central Asia's Second Chance," Olcott also reflects on the prospects for Central Asian states assessing the problems of economic development, security, and Islam.

Thus, different authors discuss various causes of the emergence of militant Islam and terrorist organizations in

Central Asia. However, most of the writings address a limited set of factors. In the next section I am going to consider rival theories of the emergence of militant Islam in Uzbekistan that pertain to the explanation of terrorism in Uzbekistan.

COMPETING APPROACHES

There are different theoretical approaches that seek to explain the emergence of Islamist terrorist organizations. These theories have become especially important in the light of the appearance of global religious terrorism in the late twentieth century. Scholars have undertaken attempts to explain terrorism from different theoretical perspectives and from different levels of analysis: individual, group, state, and international. In general, theories of terrorism can be divided into two categories: top-down approaches that take into consideration political, economic, and social conditions, and bottom-up theories that mainly concentrate on the characteristics of individuals who turn to terrorism (Viktoroff 11). I will consider two the most common explanations of the emergence of militant Islam in Uzbekistan - Relative Deprivation Theory, which is a bottom up approach and Repression Theory, a top down theoretical perspective.

RELATIVE DEPRIVATION THEORY

Relative Deprivation Theory (RDT) occupies the central place among theories of collective violence since the 1960s (Finkel and Rule 201). The essence of the theory is that economic disparities – extreme poverty, underdevelopment, high rate of unemployment – cause religious extremism and terrorism. Ted Gurr, for instance, describes relative deprivation as "discrepancy between . . . value expectations and value capabilities" (Gurr 37). According to the logic of the RDT, frustration caused by this discrepancy leads to aggression. Theorists of the Relative Deprivation Theory are convinced that there is a strong causal relationship between frustration and aggression. As Gurr states: "...men who are frustrated have an innate disposition to do violence to its source in proportion to the intensity of their frustration" (Rule and Finkel 202). Jessica Stern also makes an argument in line with the RDT, saying that social-economic grievances force people to view the world in "us" vs "them" perspectives leading them to join religious terrorist groups. Although the RDT has some validity in explaining the causes of the emergence of militant Islamist groups and religious terrorism, it does have a number of shortcomings.

First of all, Relative Deprivation Theory explains the emergence of radical Islamist organizations only at the individual level of analysis mainly emphasizing motives, emotions, preferences, and ideologies of individuals. These dispositional explanations have "the great disadvantage of accounting badly for the emergence of new properties in relations among entities, much less for the effects of aggregate properties such as population density and network structure" (Tilly 19). In other words, Relative Deprivation Theory does not take into account interactions, processes and dynamics among actors at micro and macro levels. The theory could be perfectly applied to the Central Asian case. All five Central Asian countries experienced a significant economic decline after the breakup of the Soviet Union and the level of frustration was and is still very high (Ushakov 122). Following the logic of the RDP, radical Islamist organizations should have appeared in other Central Asian states. However, Islamic extremism emerged mainly in Uzbekistan and to some extent in Tajikistan. Therefore, although the RDT can make some contribution to the explanation of the

rise of militant Islamist organization in Uzbekistan, it cannot solely account for the emergence of radical religious organizations in Central Asia.

Second, Relative Deprivation Theory, with its emphasis on grievances – humiliation, alienation, injustice, frustrations caused by poverty – homogenizes terrorists by saying that all terrorists share the same dispositions. However, Tilly and Pape argue that homogenization does not have any explanatory power because terrorism comprises a vast array of actors whose motives, means and organizations vary greatly (Tilly 20). Motives and emotions that drive people to join the Islamic Movement of Uzbekistan vary from the dispositions of people who join Hamas or Al-Qaeda. Moreover, Relative Deprivation Theory can not be applied toward the emergence of the left-wing or right-wing terrorism that existed in European countries because the reason of the emergence of terrorist organization was not poverty (Viktoroff 19).

Finally, Relative Deprivation Theory, due to its emphasis on grievances, does not incorporate structural factors such as migration, elite divisions, or the societal cohesiveness that might be crucial for the emergence of radical Islamist organizations. Thus the RDP is not good enough to explain the emergence of the Islamic Movement of Uzbekistan.

REPRESSION THEORY

The other theory that is applied to explain the emergence of Islamist terrorist organizations is the Repression theory. The main idea of this theory is that oppression provokes the increase in violence (Tilly 40). Two variables influence the intensity and character of collective violence: government capacity to repress and democracy. Government capacity means “the extent to which governmental agents control resources, activities, and populations within the government’s territory” (Tilly 43). The logic of the theory is that the probability of the emergence of radical Islamist organizations and violence is higher in authoritarian regimes because they possess governments with high capacity to repress combined with no democracy. Authoritarian governments usually have a narrow range of political activities available to political actors, which force them to resort to forbidden performances. Excluded political actors in authoritarian regimes have to apply “underground communication with clandestine physical attacks on persons and property of their rulers or enemies” (Tilly 44).

There are several ways, according to Repression theory, that might impact the character and intensity of the collective violence. First of all, governments create opportunities for violent and non-violent actions through the range of prescribed, tolerated, and forbidden forms of public claim-making. The narrower the range of prescribed and tolerated opportunities for public claim-making, the higher the possibility that excluded actors might resort to the forbidden forms of violence. In other words, government’s increased coercion of non-violent actions of the groups may lead to the decrease of nonviolent actions but to the increase in violent actions of the opposition groups. Uzbekistan is a good example of an authoritarian state with limited political rights for people and with no regularization of non-violent means for public claim-making. There is no range of prescribed or tolerated forms of violence in the country. Any violence is prohibited, including peaceful demonstrations or rallies. As a result, the opportunities for non-violent activities are very narrow, forcing people to resort to violence to achieve their goals.

Second, governments facilitate, tolerate or repress different categories of political actors by offering threats or opportunities. In Uzbekistan, religious organizations were excluded from political participation as they were threatening the authority of Islam Karimov. The perception of threats by the regimes is correlated with the level of repression. The higher the perception of threats, the higher the level of repression. Authoritarian states are particularly sensitive to threats posed by the opponents and therefore, the level of repression is much higher than in democratic states. (Davenport 687). In Uzbekistan the increasing influence of Islam in general and Islamist organizations caused a series of repressions in 1992 and 1998 on the part of the Uzbek government. Repressions forced some leaders of religious organizations to turn to the forbidden forms of violence – terrorism.

Thus a change of the opposition groups’ tactics from non-violent to violent depends on the change in exogenous factors such as an increase in governmental repression. The strong side of the approach is that it gives an explanation of why radical organizations resort to the forbidden forms of violence – terrorism. It also has explanatory power to elucidate nationalist-separatist types of terrorism, where actors have grievances toward the government that deprive them of identity, freedoms, security, and dignity (Viktoroff 20). One of the reasons why the Islamic Movement of Uzbekistan emerged and turned to terrorism was a very high level of repression in the country. The Karimov regime cracked down all opponents, including all forms of religious groups.

On the other hand, the Repression Theory is not solid enough to take into account all causes of terrorism because there are many other authoritarian states or, even, countries with sultanistic regimes. Islamist terrorist organizations have not emerged even though, the level of repression was high. For instance, Turkmenistan has a high level of repression with no prescribed or tolerated forms of violence. However, there were no precedents of terrorist attacks or religious extremism in that country. Repressiveness of the regime per se does not lead to the emergence of radical organizations that resort to terrorism. There might be other factors that facilitate it.

Second, the theory has flaws because in some instances, a high level of repression in the country leads to the opposite outcome when people do not mobilize and do not turn to violence because of the fear. The reason is that the costs are too high for the people. Thus, the Repression Theory cannot alone account for the roots and causes of the emergence of radical Islamist organizations that use terrorism as a tactic. Other factors also might have important affects and must be considered. These two theories, therefore, do not give a comprehensive explanation of why the Islamic Movement of Uzbekistan emerged in 1996. Each theory only partially accounts for the causes of the emergence of that radical Islamist organization.

INSECURITY DILEMMA THEORY

I find Insecurity Dilemma Theory as the most compelling to elucidate on the causes of the Islamic Movement of Uzbekistan. It views the emergence of militant organizations as the result of interaction of various variables at different levels of analysis: micro and macro. First of all, this theory incorporates various factors such as grievances, repression, lack of legitimacy and social cohesion. The theory has a clear causal mechanism and is especially applicable to the newly independent countries that are under transition periods and those countries that have authoritarian regimes.

The theory is based on the concept of a "weak state" i.e. "an entity lacking both social cohesion and state capacity (Job 12). As a result, the concept of national security of a weak state or as Jackson calls it "Southern States" (Glenn 12), is fundamentally different from that one of the Northern state, which possesses a cohesive nation and a governmental legitimacy. A weak state then faces mainly internal threats to or from the regime as opposed to the Northern state, which encounters external threats arising from the hostile anarchical environment. Robert Jackson, in his book "Quasi States: Sovereignty, International Relations, and the Third World," identified three main criteria of a weak state. First, a weak state does not possess instruments to provide political goods to their citizens. In other words, the state lacks infrastructural power, which means the capacity of the state to nation-building by the state and the ability of it to provide citizens with the basic welfare needs. Second, a weak state does not provide protection from external threats or it does not have a despotic power. And finally, there is a lack of legitimacy of the regime that "depends, in general, on widespread acceptance of a myth that promises valued benefits in exchange for recognition of authority and obedience to those in powers. (Glenn 17). The lack of legitimacy within a weak state is largely based on the absence of the unity between the state and ethnic groups within the state. Insecurity of a weak state can be determined by the absence of one of the three dimensions: lack of coercion, legitimacy or infrastructural power. Thus, the theory also suggests that a weak state might be strong in terms of coercive apparatus or have infrastructural power but still is considered to be a weak state because it lacks a cohesive society.

Another proposition of the insecurity dilemma theory says about the lack of regime legitimacy and absence of consensus within society might lead to the use of repression, which can be explained precisely by the weakness, not the strength, of the state that does not allow it to use other alternatives (Job 29). As Buzan put it, 'Weak states, therefore, as their principal distinguishing feature... their high level concern with domestically generated threats to the security of the government... Weak states either do not have, or have to create, a domestic political and social consensus of sufficient strength to eliminate the large-scale use of force as a major and continuing element in the domestic political life of the nation' (Buzan 67). Having said that, insecurity dilemma has following characteristics:

1 A state does not have a socially cohesive society that is characterized by a number of different groups contending for their own securities;

2 The regime lacks the support of some segments of society because the government itself represents a certain segment of society. As a result, there is a lack of legitimacy of the government;

3 The state has a large military apparatus to control the population. As a result, there is clash between the opposition and the regime;

4 Threats to and from the regime emanate internally (Job 18).

Under such conditions, weak states, then, face a dilemma of what policies to pursue to eliminate these threats and insecurity: either to increase the coercion or to give more representation to the excluded groups. Either policy might bring more instability.

The theory has an explanatory power to account for the emergence of Islamic Movement of Uzbekistan because it incorporates endogenous and exogenous factors that were

critical to the emergence of the Islamic Movement of Uzbekistan. It comprises such important variables as social cohesion, the lack of legitimacy of the regime, and grievances of the excluded groups. In the next, section I will argue that all four characteristics of insecurity dilemma theory were present in Uzbekistan.

CASE STUDY: THE EMERGENCE OF ISLAMIC MOVEMENT OF UZBEKISTAN.

First of all, insecurity dilemma theory argues that a state is weak if it lacks social cohesion. I would contend that Uzbekistan is a weak state because it is not socially cohesive. There are a number of social cleavages that divide the society from within. Those cleavages became salient particularly after the break up of the Soviet Union that brought political turmoil, ideological vacuum and deep economic crisis to Uzbekistan. As Ahmed Rashid said: "There is a palpable cultural vacuum at the heart of Central Asia, which cannot be filled by consumerism or imitations of Western culture" (Rashid 33). The modernity posed a hard choice for Uzbek society in terms of collective identities: traditional vs. modern society, secular vs. Islamic state. After the collapse of the Soviet Union, the social context of Uzbekistan embraced a number of different competing identities such as ethnic, subethnic and supraethnic. The variety of identities undermined the cohesiveness of the society and therefore national security of the state posing internal threats. One of the most crucial identities for Uzbek people has been an Islamic identity due to historical and cultural traditions. "Millions of Central Asians emotionally seized this opportunity to rediscover their identity and heritage, all of which they linked intimately with Islam" (Rashid 5). Islam as a component of new identity for many Central Asians was also important in order to reestablish their cultural and ethnic identity that was to some extent eroded under the Communist regime. Uzbek society was one of the most religious in Central Asia (Naumkin 231). On one hand, it can be explained by the sedentary culture of Uzbek people in the past versus nomadic culture of other Central Asian societies (Ushakov 49). Another important reason why Islamic identity is so important for Uzbeks: the most important historic centers of Central Asian Islamic culture are located in Uzbekistan. The importance of Islamic identity for Uzbeks is also reflected in the emergence of a vast array of religious organizations, clerics, mosques and practicing Muslims in the post-independent period. However, Islamic identity was not embraced equally by the Uzbek elites and Uzbek people in general. As a result, deep division occurred between the secular leadership of the country and a more religious segment of the society undermining the cohesiveness of the society. As Naumkin, an expert on religious extremism in Central Asia, put it 'The rise of Islamic militancy... was directly rooted in the self-assertiveness of nations searching for a collective identity' (Naumkin 25).

One of the most important internal threats to the security of the state came from the Islamic Movement of Uzbekistan emerged in 1996. In the situation of ideological vacuum and economic crisis, the ideas to create an Islamic State based on Islamic Law became critical. To understand the emergence of this radical organization, it is important to look at the development of Islamism in the country. In general, the history of radical Islam can be traced back to the Bolshevik revolution in 1917 when the first pro-Salafi ideas and first proto-Salafis appeared in the region. Later, during the Soviet period, when the religion was prosecuted, the Salafis organized underground madrasas where they pro-

moted Islamic ideas. In this period, the two versions of Islam existed in the Soviet Central Asia: Official and unofficial Islam. (Naumkin 38). It is estimated that Uzbekistan had six hundred unregistered mosques in 1945 under the umbrella of 'unofficial Islam' (Rashid 49). Thus, Islam as a religion was not eliminated, but continued to exist even after harsh repression of the Soviet regime. By 1941, only 1,500 out of 25,000-30,000 mosques open in 1920 survived, all of the 14,500 Islamic religious schools were shut and only 2,000 of the 47,000 clerics survived. (Glenn 89) Nevertheless, Islam remained an important supraethnic identity in Uzbekistan and in the whole Central Asian region.

The situation changed in the late 1980s during 'perestroika' period under Michael Gorbachev. More open political and social policies allowed the rise of religious organizations including radical Islamist organizations. During this period, there was a steady growth in influence of Muslim countries such as Saudi Arabia, Pakistan, and Afghanistan on Uzbek society. In addition to the influx of foreign missionaries, thousands of Central Asians were drafted into the Red Army to fight the war in Afghanistan. Many of them turned to become dedicated to the radical Islamic ideas.

The break up of the Soviet Union brought new and profound changes to the Central Asian region. Uzbekistan faced a tremendous rise in the number of mosques, clerics and practicing Muslims, including Islamist organizations. For the last decade two thousand mosques, nine madrasas, one Islamic University and one Islamic Institute were built in Uzbekistan only (Ushakov 113). The influence of Islam from abroad also increased significantly. The first claim to create an Islamic state in Uzbekistan was made in 1991 by the youths in the Namangan province (located in the south of Uzbekistan), which is the part of the Fergana valley. Young people were headed by Tohir Yuldashev and Jumaboi Khojiev who lately became the leaders of the Islamic Movement of Uzbekistan organization. The political elite of Uzbekistan headed by Islam Karimov refused to meet the demand and an open antagonism between Islamists and Karimov began.

The call for creation of an Islamic state witnessed the crisis of the legitimacy of the government, which is the second important feature of the insecurity dilemma of a weak state. This demand to create an Islamic state also proved that Islamist movements were radicalized. "[...] whether or not an Islamist movement becomes truly radical hinges on whether or not it rejects the very validity and legitimacy of the local state" (Fuller 17).

The Karimov regime was not able to provide for population with basic welfare needs. The refusal of Karimov to support the creation of an Islamic state and his political and economic policies undermined the legitimacy of the Karimov's government on the part of the population. After the collapse of the Soviet Union, Uzbekistan experienced a severe economic crisis. It was particularly rigorous in the Fergana valley where the unemployment reached 80 percent; inflation was up to 1,500 percent in 1994 (Rashid 82). The refusal of Karimov to liberalize the economy worsened the standards of living in Uzbekistan and further fueled to the anti-Karimov sentiments in Uzbekistan. The population facing severe poverty looked for opportunities and Islamists were able to offer a ready-hand alternative to the Karimov regime. An open call to overthrow secular regime was made in the beginning of the 90ies. The first wave of repression of religious organizations occurred in 1992 when twenty seven members of the Adolat organization were arrested (Rashid 140). The leaders of this Islamist organization, Yuldashev

and Khojiev fled to Tajikistan in 1992 where they formed the "Namangani battalion" that fought on the side of the Tajik Islamic Opposition. In this period Yuldashev established network with Islamist movements and parties in Saudi Arabia, Turkey, Afghanistan, Pakistan.

The absence of cohesiveness within society and lack of legitimacy of the government led to the more state control and repression of the population. Karimov harshly prosecuted the Islamists that posed a threat to his authority. The purges continued until 1995. As a result of this repression, the Islamists were forced to change their tactics (Naumkin 72). In 1996, the Islamic Movement of Uzbekistan was created. The goal of the IMU was the overthrow of the Karimov regime and the creation of the Islamic state in Uzbekistan. The first bombings occurred on February 16, 1999, that killed sixteen people and wounded more than one hundred. The militants hoped to kill Karimov but he was able to escape. These bombings caused even much more severe crack down on the Islamists and their sympathizers. It is estimated that in December 2002, about 6,400 people remained imprisoned on political and religious grounds in the country (Naumkin 110). In turn, the repressive policies of the Karimov regime alienate the people and raise sympathies to the IMU and other Islamist organizations.

Thus, the theory of insecurity dilemma states that threats to and from the regime emanate internally. The elite faces the dilemma what policies to pursue and whether a wider representation of the excluded groups will bring more or less stability. Hence, here is the "irresolvable uncertainty".

The insecurity dilemma theory addresses the causes of the emergence of the Islamic Movement of Uzbekistan. The lack of social cohesion in Uzbek society characterized by the crisis of identity undermines the legitimacy of the state. In its turn, the lack of legitimacy of the government forces the latter to turn to repression of the opposition forces. As a result, the security threats originate from within society.

Although the theory has a lot of advantages in explanation of the emergence of the militant Islam in Uzbekistan, it has some flaws. Despite the fact that the majority threats for a weak state emanates internally, external factors also can be crucial. In case of the IMU, the wars in Tajikistan as well as in Afghanistan fueled to the radicalization of the members and leaders of the organization. Also, the role of ideas and information brought from abroad can be important for the rise of the militant Islamist organizations. The pro-Salafi ideas penetrated Central Asian states and contributed to the rise of the Islamic Movement of Uzbekistan. Thus, we cannot underestimate the role of external factors

CONCLUSION

The emergence of a terrorist organization "Islamic Movement of Uzbekistan" can be best explained by Insecurity dilemma theory rather than Relative Deprivation and Repression theories. The latter two give only a partial explanation focusing on a limited set of factors. Relative Deprivation theory concentrates mainly on motivations of individuals ignoring processes and dynamics that might be important. Repression Theory is not adequate because it does not explain a precise causal path when repression leads to the escalation or deterrence of violence. Some countries can have a very high level of repression, however they might lack terrorism and vice versa. Therefore, insecurity dilemma theory is better to address these problems. It gives a causal mechanism explaining why the emergence of Islamic Movement of Uzbekistan became possible incorporating different variables.

According to Insecurity dilemma theory, the main internal factors that brought Islamic Movement of Uzbekistan into existence were lack of social cohesion within society and absence of domestic consensus. The existence of ethnic, subethnic, and supranational cleavages undermined the legitimacy of the regime. In addition, unpopular economic and political reforms of the government worsened the authority of Karimov. Lack of legitimacy in turn caused a high level of repression on the part of the state. Repression and prosecution led to the radicalization of the religious organizations. Uzbekistan possesses all these characteristics. It is divided over a number of identities, one of which is an Islamic identity. The Karimov regime does not provide the population of Uzbekistan with the basic well-being needs and as a result it faces a lack of legitimacy. The fear to loose power drives Islam Karimov to use coercion and repression toward religious groups. Excessive repression in turn causes the radicalization of the religious groups. Islamic Movement of Uzbekistan is a good example of it. Thus, insecurity for Uzbekistan emanates internally and further repression might worsen the situation within the country.

It is also important to note that the threat of terrorism in the region was not diminished. For that reason, a number of measures should be taken to solve the problem. First of all, Central Asian states have to accommodate and find a compromise with Islam as one of the main sources of new identity in the region.

The emergence of the Islamic Movement of Uzbekistan shows that religion plays a key role in the daily life of many people and that it can be a real threat to the security of the secular state. For this purpose, the leaders of the Central Asian states should work out certain policies toward religious organizations that would not discriminate against them. This is particular important for Uzbekistan that has a very high level of religiosity among the population and where religion will remain an important component of political and social life. The continuing repression of the religious organizations as well as people's political rights and freedoms will exacerbate the problem of radical Islam in the region and increase the threat of terrorist attacks in the future.

The next step for Uzbekistan would be to conduct extensive economic reforms to better the standards of living of the population. The command economy, which still exists in Uzbekistan, proved its insolvency and invalidity. It impedes the development of the country and makes Uzbekistan uncompetitive with other states of the region. Poverty serves as an additional factor that might contribute to the process of radicalization of social organizations whether religious or non-religious.

Another policy recommendation would be to increase the level of cooperation among the Central Asian States regarding religious extremism and terrorism, drug trafficking, and organized crime. All those measure in combination might reduce the threat of militant Islam and terrorism in the region.

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The Financial Sector of the Republic of Kazakhstan: Present State and Development Tendencies

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under the President of Kazakhstan*

The economic development of any country is unwaveringly linked to the effectiveness of the development of a credit market. Thus, in the conditions of a transition to market economy the issues of development of a credit policy of commercial banks, which contributes to an effective transmission of currency resources and transfer of population savings into the credit resources of bank system, is gaining importance.

Organization of financial and credit services to companies, organizations and population and functioning of a credit system plays a highly important role in the development of enterprise structures. Not only timely acquisition of resources by any given company depends on the effectiveness and continuity of functioning of credit and financial mechanism but also the speed of economic development of the country on the whole. At the same time the evolution of the credit system and crediting to a fuller extent is determined by the economic situation in the country, by prevailing forms and mechanisms of economic activity. Each stage of the historic economic development of national economy corresponds to its own type of organization of crediting, its own structure of credit system, that account for corresponding needs in the credit and financial services of separate parts of the economy.

The mechanisms of functioning of a credit system constantly change under the influence of changes of its organizational structure, legal forms of carrying out credit operations, forms and methods of crediting transactions.

The reforms in the bank sector of the Republic of Kazakhstan were being undertaken alongside the general state economic transformations. One of the priority directions of the conducted bank reform was the formation and development of a credit market, aimed at the provision of currency resources to individuals and companies under mutually beneficial conditions and conditions of return.

The modern credit and financial economy of the country has already gone through a stage of serious structural changes. The credit monetary system was been transformed, new types of credit financial institutions and operations have taken shape, the system of interaction of central banks and

financial credit institutions has been modified and there are new developments in state and private sector.

Significant changes have taken place in the functioning of banks: banks have become more independent in the economy; the functions of active banks have expanded and new financial credit institutions were created. Thus, at the given stage a new problem arises – development of a credit policy of commercial banks for a more effective development of a credit market and an opportunity to compete with foreign banks.

A need for a theoretical and methodological research of the issues of credit operation administration is gaining ground, of prospects of development, features and economic conditions of its development and formation of a credit market, prospects of development of new forms of crediting in commercial banks, and ways of lowering bank risks.

The creation of effective mechanisms of allocation of monetary resources of banks into organizational forms of building financial and investment potential of the country must as a priority aim for the formation and effective utilization of credit resources, that is narrowing misbalance in the formation of savings and credit allocation between sectors of internal economy as well as of external one, must in the future become one of the key priorities of macroeconomic regulation.

FINANCIAL SECTOR

During the last several years there are positive tendencies of development of the financial sector. Assets and capital of financial organizations are rising at a growing rate. The circle of financial services is widening, their quality and accessibility are improving. Integration processes with financial markets of the states of near abroad are taking place.

In the view of the upcoming entry of Kazakhstan into the WTO it is necessary to take corresponding preparatory measures, aimed at further improvement of financial sustainability and competitiveness of national financial organizations. In this regard, removing barriers to foreign capital in financial sector is necessary to carry out gradually in the course of the specific transition period.

Financial sector in Kazakhstan economy, %

Parameters	2001	2002	2003	2004	2005
<i>Banking sector</i>					
Assets ration to GDP	23.9	30.6	37.7	49.2	66.6
Credits ration to GDP	14.9	17.9	22.0	27.2	41.9
Private capital ration to GDP	3.7	4.3	5.0	6.4	8.0
<i>Insurance sector</i>					
Assets ration to GDP	0.5	0.6	0.5	0.8	0.8
Private capital ration to GDP	0.2	0.2	0.2	0.54	0.5
Insurance premiums ration to GDP	0.4	0.6	0.6	0.73	0.7
<i>Pensions sector</i>					
Assets ration to GDP	6.0	7.0	8.3	8.9	9.3
<i>Organized financial market</i>					
Transaction volumes ration at KASE to GDP	47.0	102.0	109.0	140	140

Source: the Association of Financiers of Kazakhstan

One of the most important objectives of the government is the provision of favorable conditions for production and investment activities of economic entities that are meant to be active in the sphere of consumption and in savings of profits. The degree of effectiveness of implementation of government programs in the given sphere is influenced by a number of factors and underpinnings, which include the degree of effectiveness of conducted the monetary credit regulations and development of the bank sector in the country.

BANKING SECTOR

The transition to a market economy demands new and more radical transformations in monetary credit sphere. There was a necessity to utilize economic tools, those at the disposal of banks, to develop and implement new approaches in the management of monetary transactions of the country. One of the directions of structural transformation of economy was reorganization of the bank system as a necessary condition of macroeconomic stabilization and the creation of requirements for economic growth.

The banking system plays a very important role in the functioning of the economy, offering on return basis monetary resources to population and organizations. The most

important outcome of a decade of the development of market based relations was that in Kazakhstan a two-layer bank system, under which second-tier banks have an independent right to undertake credit operations in national and foreign currency, was created. Such a system is present not only in the state owned organizations but in private ones as well, also by municipal institutes and those created as mergers at the beginning. With the creation of commercial banks the monopoly of the state in banking sector has weakened and the financial market is flourishing with all its components and competition between market players is gaining ground.

In the conditions of a relatively stable macroeconomic situation the banking sector of Kazakhstan is developing quite dynamically.

Beginning of 2000 up until 01.12.2005 assets of the banking sector have increased by 11.8 times and reached 4 trillion tenge (approximately 30 billion US dollars). Their ration to GDP increased from 16.9% to 51.6%.

Private capital of the banking sector increased by almost 7.5 times and amounted to 517.6 billion tenge as of 01.12.2005 (about 3.8 billion US dollars). Its share in GDP increased from 3.4 to 6.6%. However the rate of growth of the given indicator was behind the rate of growth of assets: the ration of private capital to assets decreased from 20.2% to 12.8%. The quality of the loan portfolio in comparison to

Main parameters of banking sector development							
	1999	2000	2001	2002	2003	2004	2005
Assets of second-tier banks, billion tenge.	341.10	527.90	784.00	1 144.97	1 677.90	2689.7	4037.2
Assets ration to GDP	16.9%	20.3%	23.9%	30.6%	37.7%	49.2%	51.6%
Private capital of second-tier banks, billion tenge	69.00	97.60	122.20	161.20	223.50	347.6	517.6
Private capital ration to GDP	3.4%	3.8%	3.7%	4.3%	5.0%	6.4%	6.6%
Private capital ration to assets of second-tier banks	20.2%	18.5%	15.6%	14.1%	13.3%	13%	12.8%
Share of hopeless credits	5.5%	2.0%	2.1%	2.0%	2.1%	2.9%	2.2 %
Credit provisions ration to the common credit sum	9.5%	4.5%	4.7%	5.5%	6.2%	6.5%	6.8%

Source: the Association of Financiers of Kazakhstan

Banking sector structure(as of 01.02.07)	
Quantity of second-tier banks, including:	33
- banks with foreign participation	14
- banks with 100% state participation in the authorized capital	1
Quantity of branches of second-tier banks	332
Quantity of cash settlement departments of second-tier banks	1535
Quantity of representative offices of second-tier banks abroad	22
Quantity of representative offices of banks-non-residents in the Republic of Kazakhstan	23
Quantity of banks-participants of the system of compulsory collective guarantees (insurance) of sums (deposits) of individuals	32
Quantity of banks that have license to carry out custodial activities	9

Source: Agency of the Republic of Kazakhstan on regulation and oversight of financial market and financial organizations.

the period beginning of 2000 has somewhat worsened, which is accounted by a radical growth in crediting.

Commercial banks play an important role in the functioning of a bank sector. During reformation of the bank system the total number of banks was annually decreasing by the means of mergers, liquidations or bankruptcy of unsustainable banks. As a result if in 1993 there were 204 banks, then as of 1 February 2007 their numbers decreased by 6 times and amounted to 33 second-tier banks, among which 14 banks with foreign participation (including 9 branches-non residents of the Republic of Kazakhstan). 26 banks of second-tier have branches and the total amount of bank branches accounts for 332.

With the decrease of the general quantity of banks there was decrease in the number of banks with foreign participation. Thus in comparison with January 2003 the number of banks with foreign participation amounted to 17, as of 1 January 2006 their quantity decreased by 3 and amounted to 14 banks with foreign participation, including 9 branches of banks-nonresidents in the Republic.

INSURANCE SECTOR

At the given moment an intensive development of the economy of Kazakhstan is being carried out, which is being followed by a successful development of financial market, and, in particular, insurance market of the country. From year to year the level of insurance culture is being elevated, the amount of premiums and services offered expand. Today the insurance system of Kazakhstan takes a leading position among the states of the CIS and has an enormous potential for further development.

In the period beginning of 2000 assets of insurance companies increased almost by 7 times, reaching by 1 December 2005 69.8 billion tenge (around 494 million US dollars). Their GDP share increased from 0.7% to 0.8%.

As of 1 December 2005, the size of the total private capital of insurance organizations amounted to 44.2 billion tenge, having increased by 37.3% from the beginning of the year.

According to the estimates, there is a decrease in a share of insurance premiums allocated according to re-insurance agreement from 74% in 2002 to 30.8% in 01.12.2005.

There is a substantial growth of insurance premiums in 2005: for 11 months of 2005 their volume amounted to 61.5 billion tenge, which has overtaken the indicator for the analogous period of the last year by 67.1%.

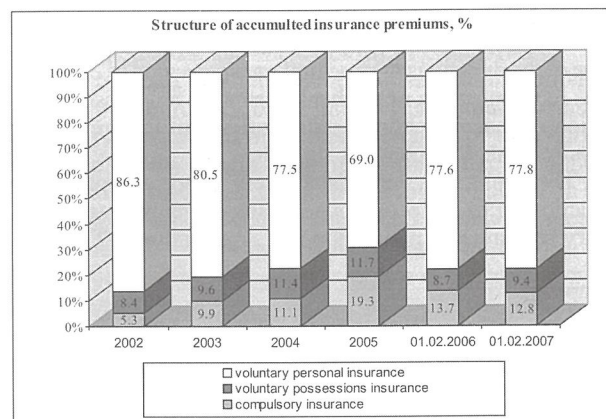
The development of insurance market is characterized by the increase in premiums and insurance payments, quantity

of those being insured, agreements and insurance subjects, introduction of new types of compulsory insurance. However, a rather low level of capitalization leads to increase of potential risks for insurance organizations. In the calculations of assets and measures of qualified sums of private capital the payments of the main resources that represent a substantial part of assets of insurance companies is not being accounted for, keeping in mind the existence of a large branch system of insurers.

Insurance premiums

The total volume of insurance premiums, acquired by insurance (re-insurance) organizations according to insurance agreements for January 2007 amounted to 12 209.01 million tenge, which is 42.7% higher than the volume accumulated for the analogous period of 2006.

From the table it could be seen that the volume of insurance premiums on compulsory insurance was more than the analogous indicator for last year by 33.1%. Voluntary personal insurance amounted to 54.2%, and voluntary possessions insurance amounted to 43.2%.



Source: the Agency of the Republic of Kazakhstan on regulation and oversight of financial markets and financial organizations

As to the structure of insurance premiums accumulations according to types of insurance as of 1 February 2007, one can emphasize the following:

In compulsory insurance - 60,3% (940.3 million tenge) accumulations of insurance premiums accounted for accumulations on insurance of civil legal liabilities of transport owners, 27.1% (422.0 million tenge) – for insurance of civil legal liabilities of employers in case of

Accumulation of insurance premiums	As of 01.02.2006	As of 01.02.2007		Changes in comparison to 01.02.2006, in %
		Sum	share, %	
Total, including:	8 553.3	12 209.0	100.0	42.7
Compulsory insurance	1 172.2	1 560.0	12.8	33.1
Voluntary personal insurance	742.3	1 144.9	9.4	54.2
Voluntary possessions insurance	6 638.8	9 504.1	77.8	43.2

Source: the Agency of the Republic of Kazakhstan on regulation and oversight of financial markets and financial organizations

harm to life and health of employees while on duty, 7.3% (113,5 million tenge) – insurance of civil legal liabilities of owners of locations, the activities of which cause harm to third parties;

In voluntary personal insurance – 40.2% (460,4 mln. tenge) accumulation of insurance premiums accounted for insurance on accidents, 34.3% (392.7 mln. tenge) – health insurance, 15.6% (178.8 mln. tenge) – life insurance, 9.9% (113.0 mln. tenge) – according to annuity insurance;

In voluntary possessions insurance – 53.2% (5 057.0 mln. tenge) accumulations of insurance premiums accounted for insurance accumulations on civil legal liabilities (except for civil legal liabilities of transport owners, air and sea transport), possession insurance – 17.1% (1 623.3 mln. tenge), insurance on other financial losses – 16.6% (1 576.1 mln. tenge), on insurance of automobile transport – 5.4% (515.8 mln. tenge).

As of 1 February 2006 there are 40 insurance (re-insurance) organizations active in the financial market of the Republic in accordance with the allocated by the Agency of the Republic of Kazakhstan on regulation and oversight of financial market and financial organizations licenses, at the same time 5 organizations have licenses to carry out activities on life insurance, and 30 organizations have license on compulsory insurance of owners of transport. Also there are 12 insurance brokers and 37 actuaries active in the insurance market.

For January 2007 total assets of insurance organizations increased by 5.8% amounting to 143.4 billion tenge as of 1 February 2007. Total private capital increased by 8.4% and amounted to 86.9 billion tenge. The sum of insurance reserves amounted to 69.4 billion tenge.

The volume of insurance premiums accumulated in the course of the first month of 2007 amounted to 12.2 billion tenge, which is 42.7% higher than during the analogous period for January 2006. Including the fact that the volume of insurance premiums on compulsory insurance increased by 33.2% and amounted to 1.6 billion tenge, on voluntary personal insurance-1.1 billion tenge (increase by 47.4%) and on voluntary possessions insurance- 9.5 billion tenge (growth by 43.8%). The volume of insurance premium by “life insurance” sector increased by 25.3% amounting to 0.238 billion tenge and the share of life insurance in total

insurance premiums decreased to 2.0% against 2.2% as of 1 February 2006.

The sum of insurance premium that were turned into re-insurance amounted to 5.2 billion tenge or 42.6% of the common volume of insurance premiums, while for re-insurance of non-residents 40.1% were allocated out of the total volume of insurance premiums (as of 01.02.2006 the share of insurance premiums that were allocated to re-insurance of nonresidents amounted to 20.9%).

The volume of insurance payments undertaking in one month of the current year amounted to 1.2 billion tenge, which is higher than the indicator of the previous year by 33.1%. Including on compulsory insurance the volume of insurance payments amounted to 0.4 billion tenge (growth by 1.1%), on voluntary personal insurance – 0.2 billion tenge (growth by 2.7 times) and on voluntary possessions insurance- 0.6 billion tenge (growth to 36.6%)

At the present time 33 insurance (re-insurance) organizations participate in the system of guarantee of insurance payments.

Important for the development of insurance market are the measures on tax stimulation of insurance and in particular its accumulation types. In the US and the states of the EU insurance premiums on accumulation types of life insurance reach more than 50% of the accumulated premiums in the insurance sector.

In Kazakhstan insurance premiums on life insurance reach 2% out of the total volume of premiums. To a larger extent this has to do with tax impositions of insurance premiums. The profits of insurance organizations accumulated in the course of active agreement of annuity (5-10 years) on annuity products, as a rule is lower than 4-5% of the payment of annuity under 2% tax imposition of the cost of annuity.

A large share of re-investment of risks is being carried out abroad because of low capitalization of national insurance companies. In 2002, in re-insurance of non-residence 15.5 billion were allocated to (68% of accumulated insurance premiums), for 2003- 15.7 billion tenge (54%) and for 2004- 18.7 billion tenge (42.8%)

From 2000 private capital of insurance organizations increased 16 times, total assets by 9 times which points to growth of trust and insurance system.

Accumulation of insurance premiums according to insurance industries	As of 1.02.2006		As of 1.02.2007		Changes in comparison with 1.02.2006, in %
	Sum	share, %	Sum	share, %	
Total over insurance industries	8 553.3	100.0	12 209.0	100.0	42.7
Life insurance	189.88	2.2	291.8	2.4	53.7
Total insurance	363.5	97.8	11917.2	97.6	42.5

Source: the Agency of the Republic of Kazakhstan on regulation and oversight of financial market and financial organizations

In 2006 there were 38 insurance (re-insurance) organizations active at the financial market of the Republic in accordance with the allocated by the Agency of the Republic of Kazakhstan on regulation and oversight of financial market and financial organizations licenses, at the same time 3 organizations have licenses to carry out activities on life insurance, and 29 organizations have license on compulsory insurance of owners of transport. Also on the insurance services market 12 insurance brokers, 30 actuaries, 36 auditing organizations and 70 auditors that have license to carry out audit insurance activities. Presently in the system of guarantee insurance payments 31 insurance (re-insurance) organizations participate.

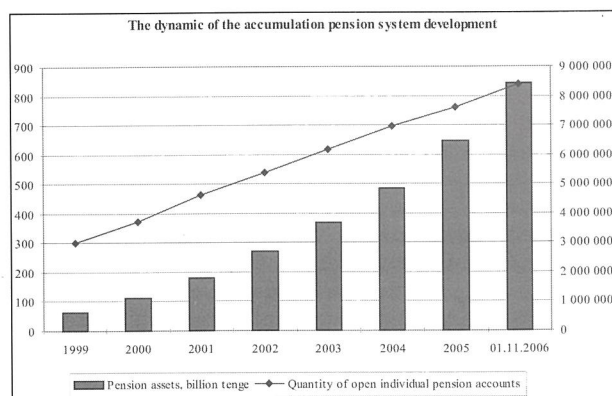
PENSION SECTOR

In the period of functioning of accumulated pension system from 1998, accumulated pension funds have accumulated 844.1 billion tenge. In comparison with 1 January 2005 there was growth by 30%. Their ratio to GDP increased up to 9.3%. The growth of pension assets for 2005 amounted to 34% and by 1 December 2006- 37%. Every month the growth of compulsory pension payments amounted in currency conversion to somewhat 80-90 million US dollars.

For October 2006 the growth of pension accumulations of depositors amounted to 13.6 billion tenge. The total pension deposits increased by 15.8 billion tenge or by 2.5%.

The quantity of individual pension accounts of depositors on compulsory pension deposits at the beginning of November of this year has reached 8 401 370. In October the quantity of accounts of depositors that transact compulsory pension deposits increased by 85 645, or by 1.03%; voluntary pension deposits - by 27, or by 0.08%, and amounted to 33 003 of the common sum of pension accumulations 580.5 million tenge.

The quantity of accounts of depositors on voluntary professional pension deposits increase in October by 23 (0.62%) and as of 1 November 2006 reached 3732 with pension accumulations to 29.7 million tenge.



Source: the Agency of the Republic of Kazakhstan on regulation and oversight of financial market and financial organizations

The sum of "pure" investment revenues of investment of pension assets (omitting commissions payments), allocated to individual pension accounts of depositors, decreased in October by 1.3 billion tenge or 0.58% and at the beginning of November amounted to 223.4 billion tenge. In the total sum of pension accumulations of depositors the share of "pure"

investment revenues amounted to 26,47%, which was lower compared to the previous month by 0.59%.

Pension payments and transfers to insurance organizations from the Accumulated Pension Fund as of 1 November 2006 amounted to 46 billion tenge and for October increased by 0.94 billion tenge (2.07%). In insurance companies in accordance with the agreement of pension annuity, transfers of pension accumulations for January –October of the current year amounted to 73.5 million tenge, including for October- 7.4 million tenge.

Transfer of pension accumulations of depositors from one fund into another increased for October by 4 billion tenge (3.27%) and by 1 November amounted to 126.1 billion tenge.

An average coefficient of nominal revenues of pension assets of the Accumulation Pension Fund for the period of October 2003 to October 2006 amounted to 24.33%, the accumulated level of inflation for the given period amounted to 25.5%

As of 1 February 2007 14 accumulation pension funds are functioning in the Republic, which have 78 branches and 77 representative offices in the regions of the Republic.

The investment management of pension assets of accumulation pension funds are being carried out by 12 organizations, out of which there are 6 accumulation pension funds, which have a license to undertake independent management of pension assets: "State Accumulation Pension Fund", "Accumulation Pension Fund of the National Bank of Kazakhstan", "Accumulation pension fund of the Bank Turan Alem of Kazakhstan", "Accumulation Pension Fund "Capital", "Accumulation pension fund "Kazakhmys" and "Accumulation Pension Fund "Otan".

The quantity of individual pension accounts of depositors on compulsory pension deposits as of 1 February 2007 amounted to 8 573 071. For January of this year the quantity of accounts of depositors of compulsory pension payments increased by 36 969 or 0.43%.

The quantity of accounts of depositors on voluntary pension payments increased in January to 2 195 (6.66%), and by 1 February 2007 amounted to 35 174 with the total sum of pension accumulations amounting to 628.7 million tenge.

The quantity of accounts of depositors on voluntary professional pension deposits, having decreased in January to 3 (0.08%), as of 1 February 2007 amounted to 3 749 of the total sum of pension accumulations of 35.7 million tenge.

As of 1 February 2007 pension accumulations of depositors amounted to 930.9 billion tenge or with additional sums for January of this year by 2.33%. The total accumulation of pension deposits, having increased in January to 15.0 billion tenge (2.20%), amounted as of 1 February 2007 to 698.9 billion tenge.

The sum of "pure" investment revenues of investment of pension assets (omitting commissions) allocated among individual pension accounts of depositors, having increased for January of this year by 8.5 billion tenge (3.31%), as of 1 February 2007 amounted to 264.2 billion tenge.

In the total sum of pension accumulations of depositors the share of "pure" investment revenues as of 1 February 2007 amounted to 28.38% or increased in January of this year by 0.27 percentage points.

Pension payments and transactions into insurance organizations from accumulated pension funds as of 1 February 2007 amounted to 49.8 billion tenge. In January 2007 funds carried out pension payments on the total sum of 1.8 billion tenge (3.85%). Transfer of pension accumulations into insur-

ance organizations in accordance with the agreement of pension annuity in January of this year was not undertaken.

Transfer of pension accumulations of depositors from one fund into another, having increased in January by 7.0 billion tenge (5.09%), as of 1 February 2007 amounted to 144.3 billion tenge.

As of 1 February 2007 the average coefficient of nominal revenue on pension assets of accumulation pension funds for 1 January 2007 amounted to:

– in the period for January 2002 – January 2007 – 52.35% (accumulated level of inflation for the analogous – 41.95%);

– in the period for January 2004 – January 2007 – 28.72% (accumulated level of inflation for the analogous period – 24.80%);

– in the period for January 2006 – January 2007 – 12.69% (accumulated level of inflation for the analogous period – 41.95%).

* * *

In drawing out conclusion on the development of the financial system of Kazakhstan it is necessary to emphasize that banking sector is working in the conditions of globalization. Globalization of financial flows and markets has the most substantial parameters. Speed and intensity of penetration of financial flows is reaching a level when national economies are becoming interdependent.

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The External Economic Activities of Kazakhstan in Central Asia: the Potential and Prospects of Regional Cooperation

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The results of the conducted market reforms and the achieved level of socio-economic development of the Republic of Kazakhstan in the course of the 15-year period were acknowledged by international community and the country acquired the status of a leader in the Central Asian region (CAR). For the provision of its further economic growth in the conditions of the growing globalization and optimal integration into the world economy in the regional format the external economic activities of our state not only in bilateral but also in multilateral format are gaining importance.

The priorities in the external economic activities of Kazakhstan today are aimed at the activation of regional interaction, account for the necessity to widen and deepen external economic ties with other states of Central Asia.

Despite the common history and a specific period of independence, the development of the states of CAR is not similar- each of them is implementing its own model of economic growth, using a prevailing economic potential.

In this regard it is necessary to examine the common economic situation of the states of the region and prospects of development of external economic cooperation between Kazakhstan and these countries.

I. THE STATE OF ECONOMIC DEVELOPMENT OF THE STATES OF CENTRAL ASIA

The examination of economic development of three states of CAR – Kyrgyzstan, Tajikistan and Uzbekistan – with which Kazakhstan is developing economic ties, was carried out according to the main macro economic indicators: gross domestic product (GDP), the level of industrial production, the level of production in agricultural sector, external trade and the level of unemployment. The period of study covered from 2000 to September 2006 (further down- the studied period).

Gross domestic product

In the course of the studied period **Tajikistan** has reached an average growth of the GDP amounting to 9.2%. Despite a difficult domestic political situation, economic and social consequences of a civil war, since 1997 a period of internal

stabilization and economic revival has begun. The level of inflation is controlled, the currency exchange course is stabilized and the level of poverty is declining.

Factors of substantial GDP annual growth (around 10%) were the following: the post-war reconstruction, favorable world prices on main export goods, growth of domestic demand due to the increase in money transaction by citizens of the country working abroad, low population growth, as well as the reforms in the state administration system. At the same time Tajikistan remains the poorest and the most underdeveloped state in the CIS, having a devastated infrastructure, weak health and education system. The GDP sector industry is represented by the following correlation of the main sectors of economy: services – 37%, agriculture – 29%, industrial production – 25%, construction – 5%, transport and communication – 4%.

In **Uzbekistan** the average GDP growth for 2000-September 2006 period amounted to 5.5%. Such a dynamic was primarily determined by the development of the agricultural industry, industrial production, transport and communication. At the same time the growth on the whole was extensive and was reached due to the extraction of mineral resources, including rear metals, gas and oil. In the GDP structure, production and construction amounted to 16% and 7% respectively, transport and communication – 8.5%. The services sector standing at 34% and agriculture – 34% – constitute a predominant part of the GDP volumes of the Republic.

The international experts emphasize also a high level of poverty, sharp decrease in the levels of economic reforms in this country.

In **Kyrgyzstan** the average GDP growth was 3.8 % while the decline of this indicator was – 0.6% in 2005. The substantial decrease of GDP production for the observed period of time was determined by the following:

– first of all, by the well-known 2005 domestic political events in the country;

– secondly, a sharp decrease of production of gold, construction material and other, important for the economy of the country, types of produce, as well as decrease in 2005 of the volumes of services (in sector structure of GDP production

amounts to 25%, construction – 4%, whereas transport and communication – only 1.3%);

– thirdly, in a midterm period there is a weakening of a real sector, due to ineffective structure of the economy.

Industrial production

In **Uzbekistan** an average growth of production in the observed period amounted to 7.8%. The growth was provided thanks to the extraction and processing of natural resources, including rare and precious metals as well as hydrocarbons. There is ongoing extraction of gas, oil, coal (more than 3 million tons annually) and gold.

The following constitute the main production industries: oil chemistry, machine building, aviation, electro-technical, and food industries.

In **Kyrgyzstan** in the observed period of time there is unsubstantial drop in production to – 0.6% (with 6% – at the beginning, and -11.4% (a drop) at the end of the period). The reasons for the substantial drop at the end of the period was a sharp decline in the production volumes (2.3%), construction materials (3.2%), in extracting sector (more than 30%) and food industry. At the same time there was unsubstantial growth of production in textile industry, rubber technical material and production and distribution of electro energy.

Agricultural production. The agricultural production remains one of the most important sectors of economies of the states of CAR. The conduct of specific institutional reforms in the industry, which at the beginning were in the form of grants, primarily were aimed at making changes to the status of agricultural producers so that non-state form of production prevails, has lead to a difficult economic transformation. The analyses of the development of production in agricultural sector for the period across the states showed the following.

In **Tajikistan** the growth amounted to 10%. Agriculture constitutes 65% of all gross products in agriculture related production. Cotton is the most important item not only of production but also of export, which is valued in the world due to its quality characteristics.

The main plant growing types of the country are wheat, potato, grapes, other vegetable, and fruits. Technical types include tobacco, kunzhut, and geranium. Meat and milk cattle breeding and meat and wool sheep breeding are also developing.

In **Uzbekistan** the average growth of production in agriculture amounted to 6.3% in the given period. The industry is dominated by plant growing, which constitutes 55% of all agricultural production.

The country specialized on production of raw cotton, around 4 million tons annually, the predominant amount of which is being exported. In plant growing sector the main plants include rice, vegetables, kenaf, grapes, and fruits.

For **Kyrgyzstan** the average growth in the industry amounted to 3.1% (3% at the beginning and 2.8% at the end of the studied period). Drop of volumes of agricultural production at the end of the period is related primarily to the substantial growth of prices on diesel fuel.

The main industries of agriculture as the main sector of the GDP structure of the republic are sheep breeding, horse breeding, cotton and tobacco growing, production of various vegetables, berries and beekeeping.

The existence of rich hydro resources is the favorable factor of development of agricultural production. Around 60% of lands are being irrigated.

External trade. According to the data provided by the statistical committee of the CIS the foreign trade activities of Kyrgyzstan and Tajikistan during the course of the studied period had overall a positive dynamic of development in the CIS and with other states of the world. However in the relation to countries of far abroad the levels of growth of volumes of export and import transactions were more substantial.

In the observed period of time in Kyrgyzstan the export growth to the CIS states and far abroad amounted to 12.4% and 6.4% respectively. In Tajikistan the given indicator with the CIS states and far abroad constituted – 1.9% (a drop) and 15.7% respectively.

The volumes of import transactions for Kyrgyzstan in the framework of the CIS for the given period has risen on average to 22.1% and with states of far abroad to 12.5%. In Tajikistan the given indicator in trade with the states of the CIS and far abroad has risen to 13% and 23.7% respectively.

There were no particular changes in the geographic structure of foreign trade of the examined states. The main states-trade partners of far abroad traditionally remain as follows: for **Kyrgyzstan** – China, UAE and Switzerland; for **Tajikistan** – Netherlands and Turkey. In the course of the observed period of time only Kyrgyzstan had a trade deficit with the states of far abroad.

The level of unemployment. The level of unemployment has an influence on the economic development of a country. On the whole in the course of the period there were unsubstantial decline of the level of unemployment in Kyrgyzstan and Tajikistan.

According to the data of the national employment services, by the end of September 2006 there were more than 73.8 thousand of unemployed in Kyrgyzstan, whereas in Tajikistan - around 47.2 thousand people. Although the real level of unemployment according to international experts on average is 3-5 times higher than the official statistics. According to various expert analyses, the number of unemployed in Uzbekistan amounts to 1.5 to 3 million people.

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In conclusion it should be noted that on the whole the growth of the economies of Kyrgyzstan, Tajikistan and Uzbekistan was due thanks to the exploration of diverse and rich raw materials. At the same time there is a substantial difference in the levels of economic growth and market reforms.

The interest of Kazakhstan as a regional leader in provision of stability and further sustainable growth of the CAR on the whole points to the necessity of finding ways and prospects of development of other states of the region. The realities of today show that it is impossible to built independently an effective diversified economic structure in the states of the region in the short period of time, which in its turn will not allow achieving high levels of development. All of this is calling forth the need to expand and deepen intraregional cooperation.

II. PRIORITY SPHERES OF EXTERNAL ECONOMIC COOPERATION BETWEEN KAZAKHSTAN AND THE STATES OF CAR

Presently the economic interests of Kazakhstan are focused on the resolution of a strategic aim - Kazakhstan

joining 50 most competitive nations in the world in the coming decade, for the implementation of which it is necessary to take advantage of regional economy. In my opinion, the priorities in this area amount to the following: modernization and dynamic nature of economy, achievement of speedy economic growth, primarily thanks to the industrial innovation based factor, development of infrastructure and services sector.

The conceptual aspect of the modern economic policy must remain the process of diversification of economy by developing production processing, which would allow:

– first of all, a more effective utilization of a resource potential of the country and on this basis provide economic growth;

– secondly, conduct quality based transformations in economy by the means of an intensive development of possessing sector in various production industries.

The main program in this regard - the Strategy of industrial innovation development up to 2015 - will allow for the provision of diversification of production and further growth of export of goods with high added value. In the framework of the Strategy a priority development will be in energy, metallurgy, agrarian and other production sectors.

The economic interests of Kazakhstan presuppose the achievement of international standards of quality of Kazakhstan produce. The implementation of the cluster initiative, put forward in 2004, should aid this processes. In the framework of the cluster approach the efforts should be directed at attraction of interest of the representatives of business circles of the states-partners of CAR in sectors of economy such as metallurgy, transport logistics, textile and food production, and tourist services.

From the point of view of economic interests of Kazakhstan, cooperation with CAR must be focused on the following aspects:

1. *Functioning of the free trade zone in the region.*
2. *Conducting an agreed upon policy of market reforms.*
3. *Integration in the sphere of electro energy and fuel resources, transport and agricultural production sector.*
4. *Creation of joint possessing enterprises in the framework of implementation of the strategy of industrial innovation development.*
5. *Joint production of competitive export-oriented produce in the framework of created clusters.*
6. *Implementation of transport transit potential of the region.*
7. *Formation of a common market of goods and services.*
8. *Training of highly qualified employees for work in the conditions of regional integration.*
9. *Resolution of environmental problems, protection of natural environment.*
10. *Provision of optimal management and utilization of hydro resources.*

In this regard the cooperation in the above stated fields must be implemented through the types of regional integration in the framework of the formation of the Union of Central Asian States. It will contribute to the increase of competitiveness, provision of economic growth of the region; increase the level of security and more optimal integration of the region into the world economy. At the same time the resolution of the set objectives of the external economic activities is congruent with the strategic interests of our country.

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