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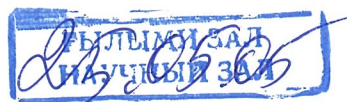
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Central Asia: 15 Years After

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This article¹ is focused on political, social, and economic development in Central Asia since the breakup of the Soviet Union in 1991. The countries of this region face a growing challenge to the status quo, above all from a wave of Islamic radicalism that demands a share of political power or even the exclusive right to rule. The fundamental question is whether the former Soviet Central Asian republics will preserve their secular character or give way to Islamic regimes.

The danger of destabilization in this region derives, first and foremost, from an internal situation that has become ever more explosive. The intraregional dynamics of destabilization (which previous volumes in the series have treated at length) are becoming ever more salient and powerful. The states have become increasingly disunited, as each acts to defend its own interests and ensure its survival. And with each passing year, the fundamental social and economic problems – a dearth of investment capital (the “capital famine”), the surfeit of unskilled labor resources, the shortage of water resources – are becoming increasingly critical. Tensions between the countries of Central Asia are steadily rising, partly because of the conflict over water and energy and partly because of long-standing territorial claims and border disputes.

Internally, the countries of Central Asia have constructed and consolidated authoritarian regimes based upon clannish, mafia-like authority structures (with the inherent patron-client relations). The ruling bureaucracy is fused with legal and illegal business. This fusion of political and business elites is based on three components: clan-based ties, the mutual dependency of patron and client, and the possession of kompromat (compromising materials) against each other, all of which serve to prevent feuding and internecine strife among clans. It is in the interest of the ruling class to support an authoritarian leader who provides, in effect, the requisite patronage and “protection”.

Censorship has become increasingly pronounced and ever more information is considered classified. Even in the Brezhnev era, the Soviet regime did not exercise the level of control over public opinion and information that now prevails in Turkmenistan and Uzbekistan. The growing proclivity in Central Asia toward secrecy has been accompanied by an expansion of a shadow economy and the seamier sides of social behavior. The illegal sphere has come to embrace virtually every aspect of life and activity: not only the economy (including the trade and

service sectors), but also the bureaucracy, law enforcement, culture, education, and medicine. In essence, so far as the broad masses of the populace are concerned, this is a survival economy. The development of an economy that flouts the law and evades taxation is a savior for many people, for it helps, at least in part, to absorb the growing unemployment and thus ameliorate social stress and hardships. In the noneconomic sphere, however, the shadow activity causes palpable harm. In any case, corruption and bribery have become the norm of everyday life and business activity. The phenomenon is systemic and ubiquitous. The number of people who are willing to pay bribes significantly exceeds the number who take them. If something is forbidden, it can simply be purchased.

Moreover, all the countries of Central Asia gradually squandered all that they inherited from the former Soviet Union – most significantly, intellectual capital and the institutions required for its reproduction. Indeed, the states in this region have even failed to ensure the reproduction of the most essential components required for economic growth. The aging of the productive base (the depletion of fixed capital and, especially, the obsolescence of industrial equipment) and the technological backwardness are increasing at a rapid pace. The expenditures on maintenance, not to mention replacement and upgrading, are woefully inadequate. The decline in the quality of human capital is particularly striking. Ethnic conflict, a deterioration in the status of the nonindigenous population, and the violation of the latter’s rights have triggered a massive emigration – that is, an exodus of irreplaceable specialists from industry and the service branches of public health and education.

The educational level of the youth has undergone a particularly sharp decline. For the broad strata of the impoverished, especially in rural areas, it has become increasingly difficult (and often impossible) for people to give their children a modern education. Instead, a growing number of young people now receive religious schooling, which has become much more accessible because of the material support from foreign Muslim foundations and organizations. The stratum of semiliterate, religiously indoctrinated youth is growing. As a result, this process is creating a fertile environment for the propagation of radical Islamism and an increase in the opportunities to recruit “warriors for Islam”.

At the same time, in recent years the Central Asian countries have all demonstrated patterns of economic growth. As a result, their gross domestic products (GDP) have risen substantially above what they were in the mid-1990s. Thus, in 2000 annual GDP growth was nearly 10 percent in Kazakhstan, 18 percent in Turkmenistan, more

¹ This article is a combination of selected introductions of Dr. Boris Rumer to his books: “Central Asia: a gathering Storm?” (2002), and “Central Asia: at the End of Transit” (2005, forthcoming).

than 8 percent in Tajikistan, 5 percent in Kyrgyzstan, and 4 percent in Uzbekistan. After years of sharp contraction, both the industrial and agricultural sectors have begun to grow again. Apart from the dubious accuracy of official statistics (particularly for Turkmenistan and Uzbekistan, where the question of reliability is especially serious), the dynamics in main macroeconomic indicators are tangible and positive. However, one must not overlook the magnitude of contraction in the early and mid-1990s: all these countries began from an exceedingly low starting point. Indeed, not a single country here has as yet recovered the level of production reported for 1990. Moreover, in assessing the likelihood that this growth will be sustained, one must also bear in mind that the decisive factor was a favorable dynamic in the prices of oil, metals, and other raw material exports, and that these prices are highly volatile and unreliable.

During the past two years, the conditions that determine development in the economies of these countries have become increasingly distinct. The jump in the world prices of oil and natural gas has powered the surge of economic growth in Kazakhstan and Turkmenistan. Expectations of an enormous growth spurt in the production of oil at the Kashagan oil fields in Kazakhstan are extremely high (although perhaps premature, since these reserves have not been confirmed). Uzbekistan, which does not possess such significant opportunities to export mineral resources, finds itself in a less favorable position. Indeed, the government there has essentially renounced a liberalization of the exchange rate and intensified state planning, with the familiar characteristics of a command economy becoming ever more salient. Its economic policies are characterized by half-measures that aim only to simulate government action, not to carry out cardinal changes. Uzbekistan's principal foreign economic partner, the South Korean firm Daewoo, has gone bankrupt, thereby rendering hopes for the development of an Uzbek automotive industry highly dubious. Kyrgyzstan, by contrast, has liberalized virtually everything and joined a plethora of world economic organizations (including the World Trade Organization), but none of that has been able to stop the steady degradation of its economy. Tajikistan has shown rather high rates of growth, but they merely reflect its extremely low starting point: indeed, the situation is worse there than in Kyrgyzstan.

It bears noting that the activity of Islamic militants has compelled all the countries of this region to increase their military expenditures, which create a heavy burden on state budgets that are already stretched to the limit.

In the decade that has elapsed since the breakup of the Soviet Union, it is perfectly clear that the countries in Central Asia have failed to create real mechanisms to ensure sustained economic growth. As a result, all these regimes have entered a phase in which they must appeal for foreign credits, fend off the claims of neighbors with respect to territories and water resources, and preserve the regime's legitimacy in the eyes of an increasingly impoverished populace.

Insofar as the remaining chapters of this volume provide a fundamental analysis of all five Central Asian states and their prospects in the foreseeable future, the goal of this chapter is to provide an overview of the most important economic and social questions in the two regional "superpowers" – Kazakhstan and Uzbekistan. In my view,

several American observers have given a rather distorted picture of the economic gains in the countries of Central Asia.

Kazakhstan

Until recently, one could say that the political situation in Kazakhstan appears to be stable. The threat of militant Islam has been less visible in Kazakhstan than in neighboring countries, and it is virtually nonexistent in the most industrially developed parts of the country (that is, the northern and eastern areas that border on Siberia). However, since the end of 2001, the political climate in Kazakhstan has been changing and has begun to show signs of an impending storm. The oppositionist forces, which until recently had been divided and which had nothing in common with Islam, have now joined forces in opposition to the authoritarian, thoroughly corrupt regime of President Nursultan Nazarbaev. The mood of protest in the population has been heightened by Western press reports of enormous sums that the Nazarbaev clan and his cronies have plundered and have stashed away in foreign bank accounts; and the discontent is further intensified by the repression of the independent mass media. All this has energized the oppositionist groups and created an explosive situation. The confrontation with the regime has led to coordinated actions by communists, oligarchs-entrepreneurs, the "Young Turks" from the intelligentsia, and the bureaucratic elite.

However, the regime has by no means exhausted its resources. It can still count on several factors: fear of destabilization, popular skepticism toward the promises of politicians in general (the result of a decade of post-Soviet experience), and political inertia of the masses. In addition, up until now, a significant part of the population has come to the conviction that the rule of President Nazarbaev, whatever its negative aspects, nevertheless ensures internal stability. Indeed, many common citizens believe that a change in leadership would lead to no good and that the clash of potential successors could destabilize the situation in the country.

Given these contradictory forces, it is important to reassess the assumption (dominant both inside and outside Kazakhstan) about the political stability of the existing regime. Stability is, after all, a critical issue: if uncertainty about political stability in the country should increase, that would undoubtedly have an adverse impact on the flow of foreign investment into its economy.

Uzbekistan

The political situation in Uzbekistan presents a peculiar admixture: attempts at partial economic reforms together with simultaneous steps to strengthen the military and police (repression) organs. The threat of Islamic extremists forced President Islam Karimov to make the army more combat-ready and to reform the armed forces. It seems that Karimov, like the other Central Asian leaders, faces a dilemma. On the one hand, the regime must bolster its armed forces, a task made all the more urgent because of the threats of Islamic militants and the deterioration in its relations with neighboring states. On the other hand, the leaders of Central Asia must fear that the army will turn into a force that plays an independent, perhaps decisive, role (as happened in Pakistan and Turkey). Will President Karimov risk allowing the formation of a powerful bloc that includes the National Security Committee, the Minis-

try of Interior, and the Procuracy? Apparently Karimov is attempting to forestall such a development. That is perhaps why he appointed two intellectuals – Mirakbar Rakhmonkulov (a law professor) as secretary of the Security Council and Kodir Gulomov (a physicist and professor) as the minister of defense. Nevertheless, the likelihood that the military will become a “third power” has recently increased. That development stems from the peculiar division of powers – not the traditional paradigm (executive, legislative, and judicial), but a characteristic post-Soviet structure (presidential, law-enforcement, and military). As before, the government does not contemplate the inclusion of moderate Islamic activists in positions of authority: Karimov simply refuses to countenance the idea of “power-sharing”.

Still, one cannot exclude the possibility that he will include a few loyal Islamic clerics – that is, those who are willing to collaborate with the regime, while preserving the full plenitude of his own power. From the perspective of maintaining stability and preventing the “Tajikization” of his country, Karimov may be justified in his uncompromising position at the present time. The experience of Tajikistan, where Russian mediation helped fashion an artificial consortium (consisting of the regime of Emomali Rakhmonov, entirely dependent on Moscow, and the Islamist opposition), shows that such a symbiosis is neither stable nor functional.

Particular attention must also be given to the droughts that have repeatedly stricken Uzbekistan. Although the main factor in the disaster was climatic (i.e., drought), the water supply problem of the region has steadily worsened in recent years. The lack of water, to be sure, is an objective phenomenon. Nevertheless, given skillful, professional management of the sixty water reservoirs constructed in Uzbekistan during the Soviet era, it is entirely possible to provide a sufficient supply of water for the crops and even to increase the yields. That is evident from the severe droughts in the Soviet era, especially in 1974 to 1975 and in the early 1980s. An analysis by experts from the United Nations confirmed that, apart from the climatic factor, the severity of the drought was due to poor “water management practices at both the national and regional levels”, along with inefficient irrigation techniques and technology as well as agricultural and crop production policies.

The sharp decline of agricultural output in 2000 was due not only to drought but also to the lack of incentives for peasants to conserve water and to save the harvest. In addition, however, there was also a marked deprofessionalization of the personnel who regulate the water resources. One should think that if the authorities were seriously concerned about the exodus of such essential specialists, they could create conditions that would entice them to remain in Uzbekistan. But here, once again, is an example of how the government has mindlessly squandered its supply of precious human capital.

Along with a decline in water resources, Uzbekistan has also experienced a degradation of its soil. For an agrarian country like Uzbekistan, that process is of course fraught with grave consequences. The attempt to achieve self-sufficiency in cereal production (thereby avoiding the traditional reliance on imports from Kazakhstan) resulted in a gradual exhaustion of the soil. Given the policy toward the agrarian sector as a donor of financial resources for the state budget, expenditures for such purposes are

exceedingly small. The peasants themselves cannot finance capital-intensive projects: the majority of agricultural enterprises are already operating at loss as a result of government orders for cotton and cereal at low state prices. How, under such conditions, can one contemplate the possibility of attracting foreign investment for melioration? Uzbek television has broadcast reports of how the state procuracy exercises control over field work, and in a number of cases the peasants bear criminal accountability for either cultivating the soil or harvesting the crops at a low level of quality.

Previous volumes in this series have examined in detail the gradualist model of economic reform in Uzbekistan and its practical results. Indeed, the economic problems that beset Kazakhstan also apply to Uzbekistan: the decline in the standard of living (especially in rural areas), a low level of consumer demand, pervasive corruption, ubiquitous bribery, and dissipation of the intellectual capital inherited from the Soviet era. Nor has the situation substantially changed during the last two years in Uzbekistan – in any event, such that it would improve the plight of the population. Most important, the principal agent of development in Uzbekistan (unlike Kazakhstan) continues to be the state. At present, the main tendencies include more state planning in key economic sectors, intensification of import substitution, and the continual drain of resources from agriculture. In 2000-2001, the government undertook several attempts to liberalize the economy, but failed to achieve appreciable progress.

Why Did Uzbekistan Take a Different Path than Kazakhstan?

Given the historical, ethnic, social, and political characteristics of each of the Central Asian countries, and given the opportunities for political elites (nomenklatura) to profit from the redistribution of state property (through privatization), it would be naive to fantasize about the sudden emergence of effective, competent, and incorrupt governments. The bacchanalia of plundering national wealth reached its zenith in the mid-1990s; but the process varied from country to country. Whereas it was most spontaneous and intense in Kazakhstan, it was much more orderly and restrained in Uzbekistan. The conception of reform embraced in Kazakhstan, the massive privatization, the government’s renunciation of control over the basic sectors of the economy – all these factors generated chaos and much greater opportunity for people to plunder the national wealth, and to do so with impunity. Unlike Kazakhstan, Uzbekistan did not offer conditions where avarice could run amok. Rather, Tashkent preserved many features of a command-administrative economic system, limited the privatization (with the state preserving ownership or at least control over the main part of the economy), erected a more rigidly structured system of authority, and had greater capacity to punish those guilty of venality.

As to why Kazakhstan applied the recipe of shock therapy, one must remember that it shares more than 7,000 kilometers of border with Russia (which is virtually free from controls) and that the economies of the two countries are inextricably intertwined. By contrast, Uzbekistan does not have a common border with Russia, and its economy – based on a single product, as the cotton plantation of the former Soviet Union – did not have such close links to Russia. Hence Karimov could take a different path:

that is, refuse to copy the Russian reform and heed the directives of the IMF and World Bank, and instead juxtapose his own gradualist conception to their formula for shock therapy.

No less important, however, is a subjective, personal factor. Although the Kazakh and Uzbek leaders both came from the same incubator (both headed the republic communist parties at the point when their countries became independent), they were quite different when it came time to conduct economic reform. Specifically, they differed in their capacity to understand the enormous complexity of the tasks, in their knowledge of the real situation in their countries, and in their ability to foresee the social consequences of reform. In terms of education and experience, the Kazakh president was far less prepared to adopt independent decisions in the economic sphere. As a result, he relied heavily on the recommendations of foreign advisors. But not all of these were professionally qualified to play this role; moreover, the majority knew very little about Kazakhstan. Nevertheless, the influence of such advisors – together with the customary proclivity to follow Moscow's lead – determined the policies adopted in Almaty.

President Karimov is of a quite different caliber and background. Having worked as a professional economist trained in the Soviet school, he earlier served as the republic's minister of finance, headed the republic-level Gosplan (State Planning Agency), and for only a short period during perestroika served as head of the Uzbek communist party. Hence Karimov clearly stands apart from the other Central Asian leaders – in terms of his understanding of the economy of Uzbekistan and its macroeconomic interdependency (in a private conversation with the author, he replied to a question about the balance of payments by immediately citing current data, with no need to make recourse to aides), and in terms of his capacity to comprehend the realities of the day. This perhaps explains why he did not dash off headlong in a campaign to demolish the old system. He apparently understood what would happen, given the specific conditions in his country, if he were to follow the formula pushed by the IMF and the World Bank. He understood the special characteristics of his society, and how neoclassic ideas are transformed in practice and how, under the conditions of Uzbek reality, they would inevitably be distorted. In this respect, he had no illusions. Foreseeing the consequences of shock therapy (which, given the conditions prevailing in Uzbekistan, would have been more severe than in Kazakhstan), Karimov refused to undertake a fundamental liberalization of the economy and essentially retained the command system.

As a result, Uzbekistan suffered the smallest contraction among the post-Soviet states. Karimov thus avoided the chaos characteristic of transition in other countries, thereby ensuring stability in the economic sphere and less stress for society as well. But that stability has turned into economic stagnation, which has in turn led to a depressed economic situation.

Although Karimov's economic policy had some positive results, by the mid-1990s it had become necessary to make corrections and modifications. Karimov, however, proved unable to diverge from the previously chosen trajectory. As an experienced economist of the Soviet school, he understood the social consequences if price deregulation, large-scale privatization, and a sharp reduc-

tion of state control over the economy were carried out in a drastic, single-stage action. In particular, Karimov perceived the danger that such an experiment could pose for a regime that had not yet consolidated power. His assessment was indeed correct: one must take into account the fact that Uzbekistan lacks the export opportunities of Kazakhstan, depends on grain imports, and faces a difficult situation with respect to cotton prices on international markets.

Nevertheless, Karimov was apparently so encouraged by the relatively favorable results of his policy in the first half of the 1990s (compared to the dire situation emerging in the other former Soviet republics, including Russia) that he failed to see the downsides and ignored growing signs of the need to diverge from the initial path. And here he revealed his own shortsightedness and failure to recognize the three essential problems in his policy: "First, agriculture is still used as a donor for other branches. Second, the industrial policy still relies chiefly on import-substitution, not export. Third, the excessive emphasis on authoritarian power impedes the development of grassroots capitalism".

Karimov is procrastinating on the need to make critical decisions, but he cannot fail to understand that the longer he remains on the present course, the more difficult it will be to take another path. And the present course is most assuredly leading to a dead end.

KAZAKHSTAN AND UZBEKISTAN: RELATIONS WITH THE "BIG THREE"

However great the influence of states with an interest in Central Asia, stability in the region – to the extent that it depends upon external powers – concerns three main actors: Russia, China, and the United States. It is important to see how their relations have developed with respect to the two key Central Asian states, Kazakhstan and Uzbekistan.

Kazakhstan

Without doubt, the foreign policy of Kazakhstan is exceedingly complex. Above all, this country finds itself pulled by two opposing poles of gravity (Russia and China), at the very time that it feels obliged to demonstrate fealty to the United States. All this leaves the Kazakh leadership in a very difficult position. The key point is that, precisely because the government must constantly try to strike a proper balance in this triangle (itself so loaded with contradictions), it cannot achieve either consistency or coherence in its foreign policy.

With all the means at its disposal, the Kazakh leadership seeks at once to maintain good relations with its powerful neighbors and to demonstrate a strong sensitivity to any encroachment on its territorial integrity. Although both Russia and China display friendship at the official level and avoid giving grounds for accusations of aggrandizement, an abiding, covert distrust and suspicion undergirds Astana's relations with Moscow and Beijing. The Kazakh political community is well aware that Russian jingoists cannot abide the idea that Kazakhstan is truly independent; nor can Astana ignore their claims to the northern and eastern territories of Kazakhstan. Similarly, a visceral mistrust of China is widespread and deeply rooted, not only among policymakers but also among the broad masses of the population.

***Kazakhstani-Chinese Relations:
Tensions Behind a Facade of Friendship***

In the post-Soviet period, the top Chinese leaders have frequently reprised the view that Kazakhstan is to play a key role in their strategy for Central Asia and hence ranks as their most important partner in the region. Yet it must be remembered that in the nineteenth century a significant part of Central Asia belonged to the Chinese Empire.

The public pronouncements of Chinese irredentists, while unofficial and less explicit than the claims expressed in Russian publications, have attracted predictable alarm in Central Asian capitals, first and foremost in Astana. As a result, many in Central Asia see the good relations with China as temporary, a sentiment grounded in deep distrust of Beijing's true intentions.

To be sure, both Astana and Beijing attempt to conceal their mutual disputes from public view. However, despite the frequent declarations of friendship and good-neighborly relations, in fact this relationship is far from idyllic. In particular, the Kazakh press was highly critical of an agreement on redrawing state borders that the Kazakh parliament approved in the spring of 1999.

Moreover, Kazakh public opinion is greatly concerned that China plans to construct a canal to divert water from the Cherny Irtys River (which crosses through both countries) in order to provide water for irrigation in Xinjiang and industrial development of the Karamay oil field. As it is, Kazakhstan suffers from a shortage of water, with half of its water supply coming from the territories of neighboring states (a significant part of which is the Cherny Irtys itself). If China diverts more water, this will have severe economic and ecological repercussions for Kazakhstan.

Astana also has other reasons for concern. First, in 1996 Kazakhstan (together with Russia, Kyrgyzstan, Tajikistan, and China) signed an agreement in Shanghai that provided for the demilitarization of a 100-kilometer border zone. The problem is that during the Soviet period the government constructed its fortifications in close proximity to the border. As a result, the new agreement creates enormous difficulties for Kazakhstan, since it lacks the wherewithal to construct a new line of border defenses and must leave its borders virtually unprotected. Furthermore, Kazakhstan is deeply concerned about the influx of the Chinese. Indeed, it has even classified statistics on this subject, although this censorship has not prevented the most fantastic figures from circulating among the general populace. The Kazakh leadership is making a maximum effort to establish good relations with its powerful eastern neighbor and to avoid giving any grounds for dissatisfaction. But the Kazakh government finds itself in a very difficult situation, since it must contend with a public opinion that is strongly anti-Chinese.

This latent conflict between Astana and Beijing sometimes comes to the surface. This is even true in the case of Kasymzhomart Tokaev, who earlier served as the Kazakh minister of foreign affairs and became prime minister in October 1999. Even Tokaev, an extremely cautious professional diplomat of the old Soviet school, could not conceal the contradictions in Kazakh-Chinese relations. One issue (perhaps the most important in terms of mass psychology) is the immigration of the Chinese – in other words, a “peaceful Sinification” of the immense,

unpopulated, and economically undeveloped territories of the country. It is a moot point whether this Sinification is actually occurring or whether it is merely the hallucination of a paranoid populace. The abolition of visa requirements between the two countries in the early 1990s effectively dismantled controls over Chinese migration to Kazakhstan. The Kazakh press has been conducting an anti-Chinese campaign, with a steady stream of reports that the Chinese are resettling in massive numbers and buying up housing and property in Kazakhstan. As a result, the Kazakh authorities have had to act unilaterally and to reimpose the former visa requirements in an effort to establish control over Chinese travel to their country.

For its part, Beijing has a vested interest in supporting and preserving the secular regimes of Central Asia, all of which seek to prevent the dissemination of Islamic extremism and, more generally, the diffusion of politically active Islam in Central Asia. After all, that same threat hangs over the predominantly Muslim region of Xinjiang, which has witnessed a plethora of explosions, assassinations, and terrorist acts by Uigur separatists since the early 1990s. The Chinese leaders are duly concerned about the activities of Islamic militants in areas of Central Asia that border on Xinjiang. The penetration of Islamic extremists, weapons, explosives, and religious teachings from neighboring Pakistan and Afghanistan into Xinjiang has bolstered the Uigur movement and its demands for the secession of Xinjiang from China.

The Xinjiang situation lends credibility to press reports that Beijing had been putting pressure on Pakistan to suspend its support of the Taliban in Afghanistan. According to these reports, China gave Pakistan to understand that it opposes the latter's pro-Islamic foreign policy. China regards Pakistan as a key to neutralizing Islamic fundamentalists and the export of aggressive Islam to Central Asia and Xinjiang.

Slowly but surely, the Central Asian states are being drawn into the Chinese orbit, in the first instance economically, but also politically (if more gradually). This tendency is most apparent in China's two contiguous neighbors, Kazakhstan and Kyrgyzstan. In general, however, one must acknowledge that Beijing has thus far conducted itself – at least, to all external appearances – in a very peaceful manner, displaying much caution in relations with its Central Asian neighbors.

Kazakhstan and Russia: Neither Together nor Apart

Notwithstanding the current importance of Kazakhstan's relations with China, in the immediate future Russia will continue to hold top priority. But relations between the two countries are problematic. A storm of indignation among Kazakhs ensued after declarations by Aleksandr Solzhenitsyn (proclaiming the northern – and most economically valuable – part of Kazakhstan as Russian territory) and the provocative rhetoric of Vladimir Zhirinovskiy that evoked a strong resonance among Moscow irredentists. However, neither former President Boris Yeltsin nor the current President Vladimir Putin has given reason for Kazakhs to accuse them of expansionist intentions.

However, for whatever reason, the mass consciousness of Kazakhs (not to mention the non-Kazakh population) is not seriously concerned about Russian expansion. The cultural bonds with Russia are still strong; the

Russian language is still predominant in Kazakhstan. The majority of the population watches Moscow television, and the Russian press fills the newspaper stands.

Relations with Russia are considerably more important for Kazakhstan than for Uzbekistan and Turkmenistan. Kazakhstan is seen as one of Russia's loyal allies in the post-Soviet realm, and a supporter for the maximum possible integration within the framework of the Commonwealth of Independent States (CIS). Kazakhstan (together with Belarus, Russia, and Kyrgyzstan) helped initiate and create the Customs Union. Indeed, its chief foreign trade partner is Russia. And Astana emulates development in Russia and, in fact, borrowed the latter's ideology of economic reform.

The link with Russia is deeply rooted. More than any other republic, Kazakhstan developed demographically, economically, and culturally during the Soviet era and, therefore, strongly reflects the Russian heartland. Moscow created the industry of Kazakhstan, especially its branches in the northern and eastern parts of the country, as an integral component of the technological complex in the Urals and western Siberia.

Nevertheless, relations between Astana and Moscow are subject to constant tension, with economic problems constituting the principal cause. For example, the two countries ultimately failed to reach an agreement on the value-added tax (VAT) for the customs clearance of transit goods. The result was a customs dispute in January 1999, when Astana, despite its membership in the Customs Union, imposed a strict ban on the import of twenty-one categories of food products from Russia. It took this protectionist action because after the devaluation of the ruble in August 1998, Russian food products became considerably cheaper than those produced domestically (with obvious negative consequences for domestic producers). Another reason, perhaps even more important (though not publicized by Kazakh decision-makers), that Astana launched this attack on Moscow lies in the fact that devaluation of the ruble made it unprofitable for Kazakhstan to export its own goods to Russia. Moscow's arrears in paying for its lease of the space-launching site at Baikonur is still another cause of tension.

Moscow displayed the cooling in its relations with Kazakhstan by reinforcing their common border, which, since the breakup of the Soviet Union, had been virtually open. In June 1999, the Russian government issued a Decree on the Strengthening of Borders and the Creation of Control Posts, the purpose being to regulate and restrict all movement across its border (above all, with respect to goods).

Nevertheless, despite such outbreaks of tension, Kazakhstan remains loyal to Russia in military and political spheres. Thus, it is still a member of the Treaty on Collective Security (which is admittedly semidefunct). Moscow encourages Astana to participate in a refurbished military coalition by providing weapons under extremely favorable terms and even gratis.

Relations with the United States: Ups and Downs

For most of the post-Soviet period, relations between Kazakhstan and the United States have been very good, but in 1998 they began to sour. From the start, Washington sought to cooperate with Kazakhstan in order to achieve several strategic objectives: eliminate all Soviet weapons located on Kazakhstan's territory, ensure Amer-

ican participation in the development of hydrocarbon resources (dear to the interests of American corporations), and channel the transportation of these commodities over routes that Washington deemed in its own best interest. The transformation of Kazakhstan into a nonnuclear state and its signing of the nonproliferation treaty led to the establishment of particularly warm relations between the two governments. This process was further abetted by a tight monetary policy (which Washington approved), strict adherence to the IMF's prescription for the transition to a market economy, the rapid pace of the transformation process, and the relative liberalism of the governing regime (especially when compared with the overtly authoritarian rule in Turkmenistan and Uzbekistan). All this created the impression of internal stability, while the tantalizing opportunities to develop a broad range of Kazakhstan's abundant mineral resources made the country highly attractive to foreign investors, including Americans. The prospects for a productive business and political partnership with a country situated in the center of Eurasia evoked considerable enthusiasm in Washington.

There is no need to explain why the Kazakh side has been so acutely interested in a partnership with the United States: one need think only of the alluring prospects of ties in the private and public sectors, as well as the promise of financial assistance and political support from Washington. As the Clinton administration formulated and implemented its energy strategy on the Caspian region, it assigned top priority to Kazakh oil exports and the direction that these would flow in any East-West pipelines. For Washington, the principal strategic objective was to ensure that the pipeline bypass both Iran and Russia. The U.S. government assigned Kazakhstan the key role in the region, and it dispatched one of its most capable and best-trained diplomats, William Courtney, to serve as ambassador. This extraordinary interest in Kazakhstan, reinforced by what are likely to be inflated accounts of potential oil and gas reserves in the Western mass media, gave rise to great expectations and encouraged a tendency to exaggerate.

The high point in U.S.-Kazakhstan relations came in late 1997 when President Nazarbaev came to Washington to participate in a session of a bilateral commission. Thereafter, however, a distinct chill set in. Kazakhstan's poor economic performance (aggravated by the economic crisis in East and Southeast Asia and in Russia), the fall in the prices of Kazakhstan's exports, growing skepticism about the real magnitude of unexplored hydrocarbon resources, and more sober assessments of the investment required to develop and transport these commodities to world markets all served to undermine the interest of the American government and business circles.

But the key reason for Washington's cooling toward Kazakhstan was its domestic policies: hopes for a liberalization of public life and for the development of democracy proved illusory. In particular, Kazakhstan failed to meet the standards of the Organization for Security and Cooperation in Europe (OSCE) in the presidential elections of January 1999 and the parliamentary voting in October 1999. The intervention of the executive branch in the voting, the outright falsification of voting returns in many parts of the country, and the suppression of opposition provoked an extremely negative reaction among the governments and public organizations of the United States and

Europe. All this had a correspondingly negative impact on relations with Kazakhstan. Another serious blow to U.S.-Kazakhstan relations occurred in the summer of 1999, when Astana sold MiG-21s to North Korea for eight million dollars and became a target of American sanctions. This deal - which is difficult to fathom in rational terms - inflicted great harm to Kazakhstan's relations with the United States.

Still, even if Kazakhstan does not recover its erstwhile top-priority status in American eyes, it can expect to improve its relations with Washington. The Americans will favor a rapprochement because of their own vested interest in a pipeline that skirts both Russia and Iran and, specifically, passes through Turkey to the port of Ceyhan. At the European summit meeting in Istanbul in November 1999, President Nazarbaev joined the presidents of Azerbaijan and Turkmenistan in signing an agreement to build a pipeline through Turkish territory. In so doing, Nazarbaev chose Washington over Moscow, an act that should earn the gratitude of the U.S. administration.

Uzbekistan

Islam Karimov evidently has two main foreign policy objectives: first, to quash attempts by Islamic radicals to topple his regime and, second, to establish his dominance as the principal leader of Central Asia. His campaign against Islamic fundamentalists has support not only from his neighbors in Central Asia, but also from the United States, Russia, and China. Although Karimov's aspirations to regional leadership are not openly articulated, no one can doubt the existence of this grand design and his own personal ambitions. All the fluctuations, flip-flops, and gyrations in Karimov's foreign policy over the last decade are subordinated to achieving both of his foreign policy goals. The anti-Iranian policy in the first half of the 1990s gave way to a cautious, wait-and-see posture in the second half of the decade. The stormy love affair with Turkey from the beginning of independence ended suddenly in 1999 with a marked cooling in their relations. Similar shifts have also been characteristic of Uzbekistan's relations with Russia and its neighbors in the region.

Karimov assigns top priority to joining Washington's circle of client states and to establishing close ties with NATO. In 1999, Tashkent joined the pro-Washington GUUAM bloc (a regional association consisting of Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova), decided to open a mission at NATO headquarters, and has supported Washington in virtually all of its actions (including the operation in Kosovo and the war in Afghanistan). Karimov not only endorses American policy in the Middle East but also has established close economic and political ties with Israel - a policy that earned him particular enmity in many Muslim circles. Whereas the West favored Kazakhstan in the first half of the 1990s, it reasigned top priority to Uzbekistan in 1997. Washington and its Atlantic partners close their eyes to the absence of democracy in Uzbekistan, pretend to take seriously the cosmetic measures to liberalize the regime, and rely on Uzbekistan to be the key strategic partner in pressing their interests in Central Asia.

At the end of 1999, Tashkent and Beijing established much closer relations. The improvement in ties was at least partly due to their mutual interest in suppressing the militant Islamic movements, which had become far more

active and threatened to destabilize Uzbekistan and, as noted, western China. In November 1999, Karimov made a state visit to Beijing and held two meetings with the Chinese President and Party Chairman Jiang Zemin. While in Beijing, Karimov declared that both countries "are united by the effort to combat international terrorism and to maintain regional security". As a result, Uzbekistan - which itself has tens of thousands of ethnic Uigurs - became China's ally in the struggle against Uigur separatist movements. Significantly, the Uigur diaspora in Uzbekistan has remained neutral in the struggle by the Uigurs of Xinjiang to gain their independence from China. Karimov also assured President Jiang that the Uigurs in Uzbekistan will not pose a problem for China. In return, the Chinese leader offered his country's assistance in the struggle against Islamic extremists, including the Taliban in Afghanistan. Both sides also agreed to work together in the struggle to suppress the drug trade. During this visit, Karimov also signed a number of agreements on trade and economic cooperation.

Moscow poses the most complicated problem for Uzbekistan, with periods of frosty relations alternating with brief thaws. The key problem is that Moscow cannot reconcile itself to the fact that Central Asia is slipping out from under its domination. While Nazarbaev periodically tries to tranquilize Moscow politicians by playing integration games and by espousing the idea of a single economic space, Karimov—from the very outset—has openly voiced his irreconcilable opposition to association with Russia, even in the most nominal, symbolic form. In essence, the assertion of Uzbek hegemony in the region is simply incompatible with the active presence of Moscow.

Tashkent has therefore endeavored to exclude Moscow from any significant role in regional affairs. As one observer pointed out, "The Russian vector in Uzbek policy, while remaining substantial and sometimes a painful zone of Uzbek foreign policy striving, is increasingly dropping to secondary (after the West) and even tertiary importance". Russia does not actively participate in an investment program for Uzbekistan. Moreover, commercial and economic relations between the two countries have been reduced to a bare minimum. Tashkent has also minimized the presence of Russian mass media in the country.

While it is not easy to disentangle the real motivations behind this hot-and-cold fluctuation in relations between Moscow and Tashkent, it is important to remember that both are tightly intertwined in a complex web that involves other countries in the region. On the one hand, the other Central Asian countries fear Moscow's control and encroachment on their independence; on the other hand, they also seek Moscow's protection - not only to combat Islamic extremism but also to restrain the ambitions of Tashkent. Moscow of course exploits these fears as an opportunity to maintain and enhance its presence in the region. The most contentious sphere of conflict dividing Moscow and Tashkent is Tajikistan. For its part, Tashkent simply cannot abide Moscow's dominance in Dushanbe, which has left Tajikistan in virtually total political, economic, and military dependency on Russia. Nor is Tashkent willing to accept the inclusion of the Islamic opposition in the Tajik government (a step fraught with far-reaching implications) or the ever-increasing flow of narcotics through Tajikistan.

THE UNITED STATES: THE INTERESTED BYSTANDER

Prior to 11 September 2001, Central Asia thus witnessed a significant realignment of forces and policy. In the case of Russia, once Putin came to power, the Kremlin refocused the primary emphasis in its Central Asian policy from economic ties to military cooperation. China, for its part, significantly enhanced its presence in the region, above all, through the Shanghai Organization of Cooperation. How did Washington, prior to 11 September, respond to all these changes?

In essence, the United States chose not to become directly involved in Central Asia and instead opted for an attentive, wait-and-see policy. From Washington's perspective, it made little sense to become actively embroiled in so explosive a situation, one fraught with rising tensions between Russia and China and further compounded by the threats posed by Islamic extremism. That cautious approach reflected Washington's view that the region was not a priority in terms of fundamental American interests. Indeed, given the American involvement in a host of other global problems, Washington saw no need to add to this list. To be sure, the United States did cultivate relations with countries in the region and actively supported the activities of various NGOs. It also subsidized, through the United States Agency for International Development (USAID), various projects and tactfully closed its eyes to the ineffective use of its funding.

The United States also criticized the ruling regimes for human rights violations. But it declined to take concrete sanctions, recognizing that the alternative was not democracy but either an Islamic theocracy or a variant of the bloody chaos found in the Balkans. In effect, the regimes there had a greater interest in the United States (as a sponsoring agent) than its principal competitors, Russia and China. The United States saw itself as better positioned to provide tangible financial assistance, whether directly or through international financial organizations. No less obvious was the American supremacy in military technology. But, above all, American policymakers—as ever—sought to preserve the status quo and stability in the region. No less important to Washington was ensuring that none of its geopolitical opponents enhanced its influence at the expense of the states of Central Asia.

In short, the United States declined to exert control over the region, a policy that would simply have required too great an effort and devoured too many resources. Perhaps the most apt description of American policy is found in the Latin phrase, *tertius gaudens* (“the third party smiles”): the United States – given its clear but limited interest in the region – gleefully preferred to remain a bystander and to let events unfold in ways that would ultimately redound to its own advantage.

Nevertheless, in the long run, the United States could not ignore the competition between Beijing and Moscow for dominance in the region. It was perfectly clear that China would eventually gain ascendancy and push Russia into a subsidiary position. And that “eventuality” is not in some remote future, but in the foreseeable future. When that does happen, Washington will have to choose between asserting its own dominance in Central Asia and letting China assume that role. It is, after all, obvious that Russia possesses neither the economic nor the military capacity to establish a protectorate over the region. Al-

though the United States in the short term preferred the modest role of bystander, it ultimately faced the question of challenging – or accepting – the prospect of Chinese hegemony.

After 11 September

The terrorist assault of 11 September 2001 forced the United States to make a radical change in its policy toward Central Asia, with far-reaching consequences for the balance of power in the region. It has already become a cliché to say that the attacks on 11 September have caused a geopolitical tectonic shift. But that is indeed what has happened. And this change has had a direct and profound impact on Central Asia. The relocation of Central Asia from the periphery to the very center of American strategic interest has fundamentally altered the balance of the three “Great Players” described above.

Tashkent's decision to place itself squarely under the patronage of Washington, accompanied by the stationing of American forces in Uzbekistan, is tantamount to a violation of the Russian equivalent of the Monroe Doctrine. It is hardly any more agreeable to Beijing, which has seen the appearance of American military presence on its western flank. All this is demolishing the system of restraints and counterweights that Russia and China, within the framework of the Shanghai pact, had created and that took into account the interests of the Central Asian states. Having no common borders with China or Russia, Uzbekistan had long refrained from participating in the Shanghai Five; not until 2001, and without great enthusiasm, did it join the new Shanghai Organization of Cooperation. Karimov's attitude toward membership in this organization was clearly apparent when he failed to participate in an emergency meeting that the SOC held in Bishkek, Kyrgyzstan, on 10-11 October of that year. By this time, Washington and Tashkent had already indicated their mutual interest in a strategic partnership. However, even with Uzbekistan's participation, the Shanghai alliance is nonetheless still important for its remaining members. So far as Moscow and Beijing are concerned, the SOC is important not only (and not so much) as a tool for delimiting state boundaries and for creating a regional economic association (a dimension that remains essentially unrealized), but rather as a military-political bloc to counteract the military shadow that America has now cast over the region.

As for the Central Asian participants of the SOC, the fact that Uzbekistan has become the regional favorite and de facto client of the United States (with all the ensuing political and economic consequences, including promises of economic assistance and practically a security guarantee) has elicited a complex, contradictory response in Astana, Bishkek, and Dushanbe. They cannot have any doubts about the inevitability of preserving their status as junior partners of Russia and as allies of China. But America's economic, political, and military support of Tashkent has created a major shift in favor of Uzbekistan. The latter's neighbors, with good reason, fear that the well-known pretensions of Islam Karimov to regional leadership will receive a powerful new impetus. They fear that, in the territorial disputes that have emerged in recent years between Uzbekistan and Kyrgyzstan, Kazakhstan, and Tajikistan, the Uzbek leader will be tempted to resort to force to resolve these conflicts. In all probability, Washington would not support such aggression on Tashkent's part. But the interest of the United States in its new ally may outweigh

any irritation over such aggression, as indeed as happened repeatedly in the history of American foreign policy.

The political elites of the Central Asian countries are alarmed by the intensification of interest in the region. The Kyrgyz press, for example, has begun to show nervousness with respect to the Uzbek-American partnership. The following statement is typical: "Tashkent may attempt to manipulate U.S. power to hammer its neighbors, specifically, Kyrgyzstan, into obedience. In this case, we will have to seek protection from someone else, like Russia. Russia and China will not tolerate the presence of their strategic rival next to them". The assertion of American power in a region where two great powers have already divided influence has provoked similar concern among Kazakh politicians. At the same time, the Central Asian regimes, the westernized establishment, and anti-Islamic population in the region cannot fail to recognize, with satisfaction, that the American presence in the region (in addition to China and Russia) is creating an insuperable barrier against the Islamist assault on the region. Moreover, many believe that the American presence will have a positive impact on the economy in the region as a whole.

American patronage of Uzbekistan elicits contradictory views in the region and in Uzbekistan itself as to its possible influence on the notoriously repressive regime of President Karimov. Optimists hope that this influence will be favorable and lead to a liberalization in public life and in the economy. Pessimists hold that political and economic liberalization is mortally dangerous to the regime, and that Karimov absolutely will not, under any circumstances, embark on such a path. The latter argue that Washington's support will only strengthen the Karimov regime and its opposition to real democratization, and that the probable attempts by the Bush administration and American human rights organizations to promote liberalization will prove fruitless. But that will not alter America's relations with Tashkent. Here one can cite the example of Saudi Arabia: its cooperation with America has lasted for decades, but without bringing about a democratization of the ruling regime.

Russia, China, and America share a common interest in blocking the dissemination of radical Islam in the region. Given this fact, hypothetically one can imagine how this triumvirate would establish a unified, anti-Islamist front there. Since 11 September, one can clearly discern a tendency for Washington and Moscow to admit the possibility of such a consensus. The situation with respect to Beijing is more complex, but one should not discount the possibility that it will join an anti-Islamist alliance (which, indeed, could coexist simultaneously with the Shanghai pact). Of course, the creation of such a grand design would require that the parties exhibit extraordinary skill, flexibility, and capacity to make mutually advantageous compromises. However, given the solidarity of interests, such a course would be optimal for the present situation; one must not foreclose the possibility that the strategic competition of these three powers will give way to cooperation in this part of Eurasia.

CONCLUSION

In the period since the events of 11 September 2001, the world's mass media (in any case, the media in Russia and the West) have given considerable attention to Central Asia and the South Caucasus. The press and elec-

tronic news agencies have illuminated many aspects of the domestic and external situation pertaining to these regions. The media give particular attention to a number of sensitive, significant subjects:

- the peripeteia of the political struggle in the upper echelons of power;
- the corruption scandals that involve people at the very top of the government;
- court intrigues and possible scenarios for succession, so important in countries with a cohort of aging leaders;
- the activities of opposition groups;
- repressive measures leveled against the independent press;
- the mounting tensions in relations between Kazakhstan and Uzbekistan, between Kazakhstan and Kyrgyzstan, and between Uzbekistan and Kyrgyzstan;
- the conflictive situation surrounding the allocation of water resources;
- the increasing incidence of border clashes;
- the maneuvering of the Central Asian leaders between the two polar forces – the United States and Russia.

In shaping policy toward Central Asia and Russia, U.S. policymakers need to be keenly aware that they have stepped inside the chalk line long drawn by Moscow to define its post-Soviet geopolitical space. It may not be in U.S. long- or short-term interests to sacrifice its relationship with Russia to its relationship with Central Asia.

Central Asia may not be as important to China as Taiwan, but for Russia, to see Central Asia fall under U.S. dominance would be tantamount to a final collapse of the great power ambitions that reside in the minds of its political class and majority of its people. Russian concerns have undoubtedly already emerged. Nonetheless, it is possible to find ways to keep these concerns from resulting in confrontation. But it will take flexibility on the part of the Bush administration, as well as compromises in other spheres of U.S.-Russia relations.

Prominent Russian specialists on U.S. politics had to force themselves to come to terms with Putin's pro-American U-turn. In the aftermath of the September 11 terrorist attacks, they put up with U.S. use of air bases in Uzbekistan, Kyrgyzstan, and Tajikistan and the U.S. military presence there. But opposition to Putin's pro-American course is strong. The top echelons of the armed forces and security services are traditionally anti-American. They grumbled at Putin's quiet response to the U.S. announcement that it would withdraw from the Anti-Ballistic Missile Treaty. Later in 2002, they will have to come to terms with NATO membership for the three former Soviet republics on the Baltic Sea.

But they are not likely to remain docile if Central Asia jumps out of Moscow's orbit and accepts U.S. patronage. This would be a call for a requiem for "Great Russia" and signal Putin's failure as a leader. He and his pro-American foreign policy course would be discredited.

Such potential consequences of U.S. penetration of Central Asia need to be taken into account as the Bush administration forges ahead in the region. Washington should also consider the likely costs of its new acquisition. Of course, gaining a springboard for operations in the heart of Eurasia is important, especially after September 11. But one must not forget that the United States is

now supporting corrupt dictatorial regimes in these predominantly Muslim countries. Their populations are not radicalized, but their prospects for economic prosperity are quite elusive. The region is also rife with traditional rivalries, fueled by a growing competition for land and water.

A U.S. embrace of the Central Asian regimes would likely entail American responsibility for regional security and stability, including support for authoritarian, even dictatorial, regimes and the suppression of radical Islam. Choosing the lesser of two evils – radical Islam and corrupt dictatorships – will mean support for the latter, just as the United States has done in Egypt and Saudi Arabia.

Optimism about Central Asia's economic prospects, which has appeared in U.S. press reports from the region, is misguided and inappropriate. In essence, the region's economic existence is dependent on raw material exports and investment from the West. If the United States wishes to become the dominant power and chief donor in the region, it should be realistic and candid about the price it will have to pay.

There is no middle road for Washington. Policies such as partial debt relief (especially important for Uzbekistan, Kyrgyzstan, and Tajikistan), new loans and credits, and help in opening markets for Central Asian goods would leave Central Asia addicted to cash injections from abroad – as has already happened with Kyrgyzstan – and will only sustain a downward trajectory. Most of the population would end up living below the poverty line, with all the ensuing implications for stability in these countries.

To prevent such a turn of events, a more ambitious investment of intellectual and financial resources would be required. And even so, if the United States finds those resources and makes the commitment, how will they be used? Will they create conditions for sustainable economic growth in Kazakhstan, with its entrenched clans and mafias and pervasive corruption? And what about Uzbekistan, which is no less corrupt and where reforms have stalled and the old Soviet-style command economy still exists?

The Bush administration needs to think clearly about the advantages and disadvantages of U.S. predominance in Central Asia. The advantages include short-term stability, access to energy resources, and proximity to Afghanistan. But there are many disadvantages too. U.S. support for existing regimes will help ensure short-term stability, but the real, systemic causes of instability will be swept under the rug. It is only a matter of time before they resurface. Economic growth is possible in Central Asia only if the local institutions are reformed, which inevitably requires tackling powerful entrenched interests.

The United States does not need to become Central Asia's "hegemon": that is, to assume responsibility for its economic development and its stability. It would be far more practical to seek a joint venture with Russia – a U.S.-Russian consortium for socioeconomic development of Central Asia. The region needs to be strengthened as a bulwark against the spread of militant Islam in Eurasia.

Russia alone does not have the resources to support Central Asia economically, to be a source of credits and loans. It cannot be its security manager either. But Russia remains economically important in Central Asia. It pro-

vides the region with important hidden subsidies by supplying it with goods and fuel at below-market prices. Landlocked Central Asia carries out the lion's share of its trade with the West through Russian transport links and at favorable tariffs.

China will seek to expand its economic and political presence in Central Asia. Russia will have to accommodate it. Moscow's policymakers will have to give up the illusion of monopolistic control over its former southern provinces. But it is more advantageous for Russia to co-exist there with the United States than with China.

Central Asia is extremely interested in U.S. patronage. Kazakhstan, Kyrgyzstan, and Tajikistan retain special ties with Russia. They would be more comfortable accepting greater U.S. presence in the region while maintaining ties with Moscow if U.S.-Russian partnership in this part of Eurasia were to become a reality.

The optimal approach toward Central Asia is to establish U.S. leadership there in partnership with Russia. It is not in U.S. interests to corner Putin and deny him the opportunity to continue his policy of integrating Russia with the West.

However, one should not focus excessively on the shortcomings and thereby ignore the obvious achievements attained during the post-Soviet years. In general, it is an obvious truism that there are serious limitations on the ability of even the most perspicacious expert to draw unqualified conclusions about a given situation at critical junctures of history. As Charles Dickens wrote, in *A Tale of Two Cities*, about a tumultuous epoch in the last quarter of the eighteenth century: "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us..."

With respect to Kazakhstan and Kyrgyzstan, one must bear in mind not only the problems described above, but also some clear achievements. Namely, these two countries did carry out radical economic reforms, created the foundations of a market, conducted large-scale privatization, made the national currency virtually convertible and its exchange rate quite stable, sharply increased the share of service and consumer sectors of the economic structure, eliminated the idea of "shortages" of goods from everyday language, and awakened the entrepreneurial spirit that had been systematically repressed under Soviet rule. In the case of Uzbekistan and Tajikistan, however, it is too early to speak of any substantial social-economic progress; as for Turkmenistan, there has been an absolute social-economic degradation. One should also keep in mind that the processes associated with rebuilding the economy and the liberalization of public life (even if only in relative terms) have been initiated essentially *ab novo*, without experience and without historical memory (since so much had been effaced from mass consciousness during the seven decades of Soviet rule). The population on the southern periphery of the former empire (as, however, in the case of those living in the central regions) was utterly unprepared for the adaptation of market reforms.

The brilliant Russian historian Vassily Klyuchevsky once made the following sagacious observation: "The

law of life of backward states among the more advanced is this: the need for reform comes before the people are ready for it." It is easy to imagine as well the condition of the leaders of the new states, who, at the moment when their countries unexpectedly gained independence, lacked the requisite knowledge appropriate to the scale of the tasks faced, who had no understanding of the fundamentals of a market economy, and who had no experience on the international arena. One can well appreciate the inevitable perplexity and confusion in the face of the unexpected, extraordinarily onerous challenges that they faced.

Notwithstanding the fact that for many years they had been in the melting pot of the highly placed party bureaucracy, each of them had preserved his individual character and traits, and these could not fail to have an impact on political policy, on economic strategy, and on the harshness of the repression. Despite all this, the new post-Soviet leadership has succeeded in completely demolishing the former political and economic system, and indeed they did so in historically short periods of time. It would therefore be neither fair nor accurate to come away with a one-sided, purely negative assessment of the post-Soviet development of the countries in this region.

This article was presented in English.

An Analysis of the Iraqi Politico-Military Situation

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Generally, the politico-military environment in Iraq remains complex and extremely unstable. Presently, there are no serious grounds for the radical improvement of security and order in the country. Moreover, it is possible to forecast the further setback of the country's environment, i.e. creating order seems unreal in the near future due to a multitude of factors complicating the politico-military situation in Iraq.

FACTOR 1: PARLIAMENTARY ELECTIONS

The electoral campaign had a significant influence on the development of the political situation in Iraq. The preparation for elections to the Iraqi transitional National Assembly, the Parliament of the Kurdish autonomy and the province councils had essentially activated the country's politics. The elections took place on January 30, 2005.

The main objective of the elections was to provide legitimate conditions for establishing national governing institutions. The Parliament is to develop the Iraqi Constitution, which shall be approved by the all-people's referendum to be held in October 2005. The country's permanent governing institutions are going to be elected only after adopting the Constitution, i.e. the President and the Government. In addition, the National Assembly will have the right to veto all presidential decrees (by two thirds majority) as well as to approve the budget. This means that the authority of the Iraqi Parliament to be established in the country's post-Saddam period will be unprecedented even in worldwide standards. All these give rise to a vehement electoral campaign that we could observe.

One hundred and seven political parties and groups contested seats in the National Assembly. Some 7,700 candidates (from parties and independents) fought for 274 seats in the future Parliament. Seventy – four parties acted independently and the remaining formed 9 pre-election blocs.

According to the parliamentary elections' official results released by the Iraqi Election Committee, the candidates from the *Iraqi United Alliance* polled 47% of the votes. The coalition of the Kurdish parties took 25%. The Prime Minister Iyad Allawi's bloc was third with over 13%. Based on the above results, it is possible to estimate the number of seats in Parliament to be taken by each bloc: the Shiah will take 132 seats, the Kurds – 71, Iyad Allawi's bloc – 38 seats. [1]

In our opinion, political coalitions were formed based on **ethnographic and confessional principles** as a result of the elections held to further develop the Iraqi political system.

The largest confessional group in present-day Iraq is the *Shiah*. The Iraqi United Assembly (IUA), a political bloc headed by one of the most powerful religious figures and the Iraqi Shiah spiritual leader, Ayatollah Ali as-Sistani, claims the sole representation of the Shiah's interests.

The main objective of the Iraqi United Assembly at this time is to form the national government. Their medium-term outlook is to unite all Shiah parties and politically dominate in the country, which looks like a rush for *revanche* and "historic justice".

The Shiah has sufficient grounds for such actions. They are the largest confessional group in the country making up 60% of the total population. The USA considerably relied on them when launching its military campaign in Iraq, taking into account that this confession had suffered more than any other part of the country's population under Saddam Hussein's rule. With the intention to gain Shiah gratitude and future political loyalty, the USA and the Iraqi Interjacent Government, being influenced by the Shiah group, had to set January 30 as the date for the elections without any suspension demanded by the leaders of other ethnic groups as well as countries. But, it did not turn out as predicted. The Shiah leaders, in the stream of their victory, made their approach to defending their interests more severe. The differences in the ideological views of the Shiah political group leaders and their current tactical co-ally, the USA, are profound. As-Sistani and his supporters more and more distinctly call out to build the new Iraq as an Islamic country.

The landslide victory was the first stage of the Shiah bloc's strategy, and now, the first point on their agenda is to form the Government. The Shiah majority in Parliament nominated Ibrahim al-Jaafari, the leader of the conservative Islamic party *Dawa*, as its candidate for the post of Prime Minister. This extremely irreconcilable person serves neither the American sponsors nor the Iraqi political opponents.

The outcome of the growing collision of interests between the Shiah and the USA, and between the Shiah, the Kurds and the Sunni is predictable.

The second ethnic group in Iraq, **the Kurds** (20% of the total population), also formed a united election bloc, the *Alliance of Kurdistan*, which comprises members of the two leading Kurdish parties: the Kurdistan Democratic Party and the Patriotic Union of Kurdistan.

The Kurds' main objective, to form Iraq as a federated state guaranteeing their political and economical autonomy, is ambiguously accepted by both the external players in the political arena and other ethnic and political forces in Iraq. Kurdish community leaders sheered away from open confrontation before the elections. However, seventy – one seats in Parliament may give them the power to defend their interests more actively to the extent of open confrontation. Even today, observers have an extremely negative view of the situation around the city of Kirkuk and its surrounding regions. Kurdish leaders insist that the former administrative borders are reconstructed to include Kirkuk in the territory of Iraqi autonomous Kurdis-

tan on the grounds that the majority of Kirkuk's population is Kurds and the region was autonomous under Kurdish rule before. The Iraqi Government has not taken any action to settle the problem with Kirkuk. At the same time, the American military command led by Colonel L. Miles put aside this issue and did not interfere in the parliamentary election process. [2]

According to experts, the "problem" with the Kurds is really dangerous and poses a threat to the political stability in Iraq.

As it turned out, *Sunni Arabic political and religious forces* were excluded from the legitimate political process in Iraq. About 50 political parties and organizations representing the Sunni community (20% of the total population) encouraged the people to strike ballot. The most authoritative and largest parties, the Association of Islamic Ulems and the Islamic Party of Iraq, were among them.

Given the existing balance of power, rather inconsiderable in number and unconsolidated, Sunni political organizations cannot claim a wide representation in the legislative and other governing institutions. At the same time, Sunni leaders still remember the taste of power and do not intend to be a minor political player in the country. This scenario seems to be the most probable given the present situation. The Sunni has fallen into the shadows of the Iraqi political life. As a result, the Sunni are not represented in the governing institutions strengthening the social and ideological base of the armed extremist groups in Iraq.

Iraq's electoral campaign revealed a considerable conflict of interests between various political groups, mainly concerning the future political and social structure of the country. Contradictions within ethnicities and denominations are becoming more severe, which increases the tensions in the country. At the same time, the political situation is such that there are no political alliances that have specific programs and can act effectively.

FACTOR 2: ARMED EXTREMISM

The contradictory way that the electoral campaign is being conducted creates sufficient conditions for activating various domestic and international terrorist groups.

According to *the New York Times*, which refers to official sources in the US, the number of foreign militants and domestic members of the armed resistance acting in Iraq is 8,000–12,000. If supporters and behind the scene cohorts are added to this number, it reaches about 20,000. This information differs from that contained in previous CIA reports, which claims that the number of the Iraqi militants is 1,000 and in no way exceeds 7,000. [3]

Experts believe that the armed opposition is made up of former members of the **Baas party and radical Islamists**. Often, former Baas members join Islamic fundamentalists using Islamic rhetoric as propaganda. Baas supporters comprise the majority of the armed resistance groups; however, their union with the Islamic radicals are not constant, due to their tactical nature. The strategic objective of resistance forces is to drive away foreign armies and take down the present pro-American regime. In the near future, they plan to break the all-people's elections in January 2005 as part of their tactical strategy. [4]

The following terrorist groups and organizations are considered the most active in Iraq:

- ♦ **Jemaa al-Tayhid and Jihad** headed by terrorist Abu Musab al-Zarqawi. The organization considers itself a part of al-Qaeda and acts mainly in the so-called *Sunni triangle*.

- ♦ **Ansar al-Islam (Islamists)**. According to Kurdish sources, it is the leading fundamental group acting in the hard-to-reach mounting areas of Iraqi Kurdistan. The group is based in the city of Hurmal at the Iranian border. It is supposed that Ansar al-Islam, consisting of about 300 people, keeps in touch with al-Qaeda and that some of its militants were trained in Afghanistan. From time to time this organization attacks Iraqi governing institutions and members of nonreligious parties in Iraqi Kurdistan.

- ♦ **Islamic Army of Iraq**. According to experts, it consists of about one hundred people, both men and women, and is divided into two groups. The first is represented by radicals and salafists (a religious current insisting that the Koran be interpreted fully and strictly) supporting Usama bin Laden. They were done away with by Hussein and came back not long ago. The other faction consists of former officers of Hussein's army and Baas party activists.

- ♦ **The Mojahed's Army of Iraq.**

- ♦ **Jeish Ansar al-Sunna** (The Army of the Sunna Warriors).

- ♦ **Jamaa Shura al-Mujahidin.**

- ♦ **Brigades of At-Taffa's Martyrs.**

The last four groups were unknown until now, which leads to the belief that they were recently established. Most likely, they consist of the former members of the Iraqi special services who currently act throughout most of the country.

According to information from Iraq, the country is gradually becoming a center of international terrorism after a majority of the terrorists training bases in Afghanistan had been relocated to the territory. The situation in Iraq promotes subversive activities due to the country's large population, high urbanization (it is always easier to hide in a city), developed industrial infrastructure (objects for attacks), higher involvement in the affairs of the Near East and, as a result, rapt attention of the world community. Trained terrorists act not only in Iraq, but reach other "flash points".

The leaders of the Iraqi resistance use the ideological motives of the Shiah and the Sunni states to antagonize them creating a rivalry that can be observed in the Islamic world. The idea of Shiah revanche does not suit a number of powerful countries in the Near East, such as Saudi Arabia, Egypt, Syria and others. Therefore, considerable moral and financial support must be coming through various funds and organizations from those countries.

Thus, everything that is happening in Iraq is conducive to deepening the crisis of ensuring safety.

FACTOR 3. EXTERNAL FORCES

The present state of affairs in Iraq is complicated not only by internal tension, but by the influence of external forces whose interests frequently do not coincide with each other and, even more, come into conflict. The major external forces in Iraq are the United States and the Islamic Republic of Iran who struggle to influence the situation.

The most influential player in the Iraqi political arena is still *the United States*. Most directions of the present Iraqi foreign and domestic policies are determined in Washington. From the summer of 2003 to December 2004, the USA spent \$3.6 billion to reconstruct the country. Americans spend \$200-300 million per month for these purposes. [5] As of February 1, 2005, the American deployment in Iraq totaled 152,000; 120,000 of which were ground troops and the rest were represented by the Marine Corps,

Air Force and the Navy. In addition, about 25,000 soldiers were located in neighboring Kuwait. [6]

However, the US has recently been concerned with reducing its expenditures on political and military purposes in Iraq. As a result, the most probable scenario that may be used by the United States is the so-called "Salvadorian scenario". It envisages using Iraqis themselves against the Iraqi militants, by providing financial and military support to the groups in conflict with America's main enemies. The US used this very tactic in Salvador in the early 1980s. [7] The inherent disadvantage of this tactic is that most candidates, the Shiah and the Kurds, which could be supported, are not so loyal to American interests.

One should admit that the US has not yet succeeded in normalizing the situation in post-Saddam Iraq and is becoming more and more dependent on the peculiarities of the local political environment. Even though the expenditures and threat of American military forces entering the center of the Islamic world exceed the cost of leaving the region, the US is determined to continue keeping hold of Iraq as a strategic base, preserving the possibility of using its army in any other place in the region. [8]

Iran is considered as the country in the region with the most significant influence on Iraq. Today, Iran is the main opponent of the US in trying to institute control over Iraq by pursuing its independent policy. Moreover, present political conditions are expanding the cooperation between Iran and Iraq. Teheran is using various methods for this purpose.

Firstly, it actively uses diplomatic means in order to re-establish bilateral relations with Iraq that were severed after the war in 1980-1988; the two countries are in the process of concluding a treaty of peace. Irani authorities are always offering their aid in the reconstruction process in Iraq, both by their own means and on an international basis.

Secondly, Iran widely uses its intelligence agencies and other services when implementing its own foreign political strategy with the goal of expanding its influence in the Near East, and considers Iraq as the top priority in this process. According to the Iranian oppositional group, People's Mojaheds of Iran lead by Ayatollah Jalal Ganjei, Iranian authorities spent a total of \$70 million on special operations in the neighboring country. [9]

Thirdly, Teheran uses contacts with the leaders of the Shiah groups formed when Saddam Hussein ruled over

the country. During Saddam's rule, the Shiah were persecuted and had to seek refuge in Iran. In addition, Iran is pushing for the Shiah parties to gain the majority in the newly established Parliament.

In our opinion, Iranian authorities will actively use "the Iraqi map" in order to achieve a new level in their relations with the US to reduce the risk of seeing the American army on the territory of Iran.

CONCLUSION AND PREDICTIONS

Taking into account the aforesaid, the politico-military environment in Iraq remains complex and extremely unstable. Despite the work carried out, the US army and the Iraqi Interjacent Government have not succeeded in improving the state of things in Iraq, especially concerning ensuring safety. An analysis of the situation in the country is disappointing; the crisis is likely to deepen for a rather long time.

First, parliamentary election campaigns have increased the contradictions and heightened the struggle between the various political forces in the country, which, in turn, makes it difficult to bring peace to the nation. Currently, there is no evidence that all the political forces having even the slightest influence in the country will be satisfied with the results of the elections. In the end, the elections may result in a more serious split between the ethnic and religious groups. The most pessimistic but rather probable scenario for the future is civil war.

Second, according to information from Iraq, the country is gradually becoming a center of international terrorism. Armed extremist groups are sure to act on a much more substantial scale and their attacks will be more sophisticated.

Third, the balance of external forces in Iraq is likely to become more unstable. US policy does not seem to be of real help to settle the problems in the country. Present military methods have not had a positive result and, at the same time, US leaving Iraq seems unrealistic. In addition, tensions between neighboring countries concerning their attitude towards the situation in Iraq are becoming more obvious. This may result in a new crisis on a regional scale.

Judging by the state of things in present-day Iraq, the world community does not anticipate stabilization in the nearest future.

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Military Policy of Turkey in Central Asia and Transcaucasia as a Guide of NATO Strategy in the Region

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Soviet Union collapse and independent states foundation in Transcaucasia and Central Asia have caused the explosion of nationalist moods in Turkey. The cautions of Kemal Ataturk against the pan-Turkic aspirations were suddenly forgotten, and the calls "to create the Turkic world from Adriatic Sea up to the Great Wall of China" began to be heard louder.

Ankara began enthusiastically to undertake the restoration of "brother bonds" with Turkic peoples of these regions, promising to make XXI century in "a century of the Turks", on expression of the former president of Turkey Turgut Ozal. The Prime Minister of Turkey Sultan Demirel had marked in 1992, that Turkey was the cultural center and a historical magnet for many of new independent states of Central Asia and Transcaucasia.

Thus Ankara in every possible way emphasized that its interest to former Soviet Turkic republics could be explained by aspiration to restore the traditional links with "related" and "brotherly" peoples of these countries, destroyed by the time of Soviet authority.

Certainly, the development of relations with the countries of Transcaucasia and Central Asia was not as positive as it would be desirable for Turkish government. First of all it was connected to lasting influence of Russia in the countries of these two regions and with growing regional rivalry of Turkey and Iran. In the first years of the cooperation with the Turkic countries Ankara carried out the expansion first of all in political, economic and cultural spheres, how-

ever in second half 90th years it started to turn aside the developments of military-political cooperation.

It can be explained by the following reasons.

First, there was a further weakening of Russia and decrease of its role as "senior brother" for the southern neighbors.

Second, in absence of real constraining force NATO was continuing to extend its activity in all directions, beginning from the expansion due to the former countries of the Warsaw Pact and finishing with various exercises with the post-Soviet countries within the framework of "Partnership for peace" operations.

Third, the real opportunities and prospects for construction and operation of new oil and gas pipelines around of territory of Russia have appeared. First of all it was favorable for Turkey that desperately needed in deliveries of power resources, and thus created the additional preconditions for escalating of military-political cooperation with countries-suppliers of these resources (first of all with Turkmenistan, Kazakhstan and Azerbaijan) and with the potential transit countries (Georgia).

Military policy of Turkey in Transcaucasia and Central Asia in mirror of NATO regional strategy

Directions of cooperation in military-political sphere between Turkey and new Turkic republics mostly coincide with directions of development of all complex of mutual relations between Ankara and new countries.

It was determined by the mutual interests and the purposes that could

be achieved only under condition of close and widespread cooperation with each other. The recognition as the new leader of the Turkic world was very important for Turkey. The fact that for the first time from the moment of disintegration of Ottoman empire Turks had got an opportunity to expand their influence for limits of own state, encouraged the confidence that Ankara had obtained a new chance of revival of the former greatness and increase of the importance in global affairs.

It was especially important that collapse of the USSR essentially decreased the role of Turkey as southern flank of NATO in opinion of the West that was accompanied with the reduction of military and economic support, and with refusal of EU to precipitate its acceptance in structure of organization.

In cooperation with Turkey the countries of Transcaucasia and Central Asia had taken into account the following significant factors:

- ♦ Affinity of culture, religion, ethnoses and language;
- ♦ Orientation to Turkish model of development meant the construction of secular republic with Islamic specificity, when orientation to Iran - islamization of all sides of political life, that obviously did not impose the local elites;
- ♦ Advanced Turkish market economy and its economic successes. At last, Turkic republics were attracted by Turkey's versatile connections with the West, its deep integrity in European economic, political and military system. That is why the cooperation with Turkey was very attractive and very promising.

Development of military-political relations between Ankara and Turkic

republics has accepted the diversified forms:

- ♦ an establishment of military contacts between force departments of the countries;
- ♦ training of members of special services from these republics in Turkish Police academy;
- ♦ signing of military contracts;
- ♦ deliveries and purchases of arms, military technical equipment, regimentals and equipment;
- ♦ rendering of various military help and support;
- ♦ professional preparation of diplomats from these countries in Turkey.

However, the most widespread form of military-political cooperation between Turkey and new countries is the training of students from Turkic republics in Turkish military educational institutions.

Training in similar educational institutions cannot be held out of NATO standards and should render corresponding ideological influence on students. In turn, the relations of Turkic republics with North Atlantic block are also the original form of military-political cooperation with Turkey as Turkey gradually tries to direct these countries in influence orbit of the West and actively promotes their rapprochement with the Western military structures and first of all with NATO.

In August, 1994 during the stay in Baku the Chief of the Joint Staff of Turkey general D.Guresha proposed the idea of combination of Azerbaijan military constructing with NATO program "Partnership in the name of the peace". The supreme military commandment of Azerbaijan considers the participation in this program as one of steps on the way to integration into NATO, and Turkey could become a bridge, through which Baku would adjust closer cooperation with it.

It is necessary to notice that NATO in proper time enough had operatively reacted on disintegration of the USSR that was expressed in creation of North Atlantic Cooperation Council on which basis completely new form of co-operation – the program "Partnership in the name of peace" – had been developed.

The prior purposes of the program are to prevent the creation of new military block within the frameworks of the CIS resisting to NATO, and also counteraction to merge Central Asia countries with Islamic world, espe-

cially with those countries where orthodox Islam ideology dominates. The alliance has allocated large assignments for their realization due to which contacts of NATO with these countries are actively developed and joint programs in sphere of safety are realized. During the year from time of NATO invitation to wide cooperation (since January, 11, 1994) the Frame document was signed by all Central Asia countries, excepting Tadjikistan: Turkmenistan (on May, 10), Kazakhstan (on May, 27), Kyrghyzstan (on June, 1) and Uzbekistan (on July, 13). Later Azerbaijan and Georgia had joined the program too.

The most efficient aid and support in forming of national armed forces of Central Asia countries is rendered by three member-states of NATO: the USA, Germany and Turkey. These states since the first days of diplomatic relations establishment with the countries of region have offered different variants and forms of bilateral military cooperation and that's why the assistance in foreign languages studying, military education and development of principles of modern armed forces constructing – naturally according to NATO standards is provided from their party. The role of Turkey in this triumvirate is represented as extremely important even because it is located much closer than others to instable and crisis regions and therefore, undoubtedly, plays a role of the regional deterrent.

At the end of 2000 Turkish military commandment had applied with offer to NATO to create in Istanbul a staff of Quick Reaction Forces (QRF) of alliance with zone of responsibility that would include the Balkans, Caucasus and Central Asia. The struggle against Islamic terrorism was proclaimed as the main goal of these forces, however presently there is no doubt, that it is called to provide "unimpeded access" of the military-political union of Northern Atlantic states to hydrocarbon resources of the Caspian region.

Turkey was going to allocate 3-rd and 4-th Army corps deployed in Istanbul and Ankara into QRF structure. Thus the first corps would be in condition of the raised alertness. A basis of QRF formation would make about 1,5 thousand officers from the NATO states. 50-60 thousand of military men would support the QRF at occurrence of crisis situations.

Protection of Baku-Geikhan oil pipeline passing through Azerbaijan and Georgia to Turkey is called by the western both local experts as possible task. On April, 29, 2002 the Presidents of Turkey, Georgia and Azerbaijan had met in Trabzon for discussion of pipeline safety. E. Shevardnadze, G. Aliev and A. Sezer had signed the pact of safety, creating conditions for reorientation of their military structures to protection of oil pipeline and the Eurasian energetic corridor.

Thus Turkey actively tries to find the ways of political influence or deepening of cooperation in these geopolitically important regions, especially through mechanisms of NATO, which considers Turkey as reliable political and cultural guide for deep fortifying in region.

Military-political cooperation of Turkey with countries of Transcaucasia and Central Asia

Transcaucasia. Region of Caucasus is traditionally in the list of Turkish geopolitical priorities, where Turkey tries to fix political leadership, but meets counteractions from the sides of Russia, Iran, and in the last time EU and USA. Turkey tries to use all possible ways of strengthening of own positions as in unilateral initiatives, as through membership in NATO, which is the one of factors of military cooperation intensification from the side of Georgia and Azerbaijan which are trying to adjust a tight dialogue with the Western structures.

The expansion of military cooperation with Turkey allows Azerbaijan and Georgia to approach with NATO: in this case Transcaucasia oil projects get under protection of safety system of the West.

Bilateral agreement signed in August, 1992, and also a number of agreements and the arrangements made during the subsequent working meetings are the basis of Azerbaijan-Turkey military cooperation. The same year during the Nagorno-Karabakh conflict and the further escalation of the Armenian-Azerbaijan confrontation, about 150 high-ranking Turkish officers (mostly in resignation) and thousands of volunteers participated in military actions on the Azerbaijan side. In Turkish military commandment there were proposals to send 5 thousands of

officers and soldiers into conflict zone to support Azerbaijan. Nevertheless Turkish government refused that plan and in many respects it was connected to statement of the Commander of CIS armed forces marshal E. Shaposhnikov who rigidly declared, that *"...involving of the third party in the conflict will result into beginning of the Third World War..."*

During the IVth summit of the Turkic states in 1996 the next agreement on military-technical cooperation was signed. In the beginning of 1999 the messages on desire of Azerbaijan to relocate the western military bases on own territory began to appear. As the initiator of idea had acted then the Council of the President on foreign policy questions Vafa Guluzade who had declared: *"...I really think, that Azerbaijan for safety maintenance should strengthen military cooperation with the West. It would be quite good for the beginning to relocate US military base "Ind-Jirlik" from Turkey to Apsheron..."* However in the spring of 1999 the conversations about relocation of US military base into Apsheron as had sharply stopped, as well as had begun.

Probably, it was connected to the beginning of NATO military operation on the Balkans and unwillingness to open new "front" against Russia. It is quite possible, that the game with base relocation was worked out strategy of the USA on intimidation of Russia by new threat in the South for reception of the certain concessions in the East Europe.

However it only resulted into the further activization of military contacts between Turkey and Azerbaijan. In February, 1999 Azerbaijan Minister of Defense Safar Abiev visited Turkey, where the opportunities of signing of military agreement between two countries were discussed. After a meeting with Turkish officials Abiev noted, that *"alongside with other problems we discussed opportunities of creation of the military union between Baku and Ankara, similar to the agreement between Russia and Armenia"*.

In September, 2000 Minister of Defense of Turkey S. Chakmakoglu had paid an official visit to Baku. The intergovernmental agreement "About cooperation in the field of defensive industry" was signed by results of bilateral negotiations where the accent on application of Turkish experi-

ence in development of Azerbaijan military complex was made. In the long term the sides assumed to carry out joint army exercises, to adjust regular military-technical cooperation, including co-production of some kinds of military technical equipment and arms, in particular, organization at the Azerbaijan enterprises of manufacture of aviation rockets and motors.

Turkish military experts directly participate in development and realization of plans of constructing of Azerbaijan armed forces. There is also an agreement between Baku and Ankara on education and preparation of Azerbaijan militarians in Turkey. Presently over 400 Azerbaijan militarians are trained in Turkish educational institutions, and up to 70 Turkish officers, in turn, are totaled in the Azerbaijan army. It had already been mentioned above, that official Baku supports transformation of Azerbaijan army to standards of NATO.

Nowadays fears are caused that military cooperation between these two states in more and more growing degree takes the form of the geopolitical military union created under patronage of NATO with obviously expressed anti-Russian orientation.

As to Georgia, despite of it's not Turkic and not Muslim origin, Turkey always considered it as a zone of own geopolitical and economic interests. Georgia is a convenient corridor in the Eurasian region; an oil pipeline to the Baku-Tbilisi-Jeikhan, and in the long term possibly the Great Silk Way will pass through its territory. In turn for Georgia Turkey is a door opening ways to the West and NATO respectively. Having obtained the independence, Georgian government lives through different difficulties and seeks for the ways to escape Russian control. Similarly to Azerbaijan, it indefatigably tries to find the ways of the further strengthening of contacts with NATO, and being President of Georgia E. Shevardnadze once even expressed the readiness of his country to participate in that block. Georgia insisted on that instead of Russian peacemakers in Abkhazia the divisions of NATO had to be placed.

In 1997 the agreement of cooperation in military area was signed between Turkey and Georgia. According to that agreement, professional training for the Georgian armed forces in Turkish military educational in-

stitutions is conducted. On April, 15, 1998 the Memorandum of mutual understanding in questions of military cooperation between the Ministry of Defense of Georgia and the Joint Staff of armed forces of Turkey was signed for development of that military agreement.

In that document the strategic military partnership between two countries was declared. It provided rendering of assistance from the side of Turkey in formation of material base and in professional training of Georgian armed forces. In the same year for development of military-political cooperation Georgia received from Turkey the grant of 5.5 million dollars on repair of military objects, purchase and perfection of military equipment, building of educational center of Georgian military academy and financing of the Georgian army. Ankara accepted the obligations to finance the modernization of polygon in Gori to provide professional training in Turkish military educational institutions, and also to build some military objects.

Besides Turkey provided military deliveries for Georgian army, in particular, it was declared about handing to Georgian boundary forces of several high-speed boats for protection of Georgian sea borders after withdrawal of the Russian frontier guards from Georgia.

The special place in bilateral relations of Turkey with the states of Transcaucasia is occupied with Armenia, which is considered to be one of the most significant barriers for Turkish regional leadership.

During already almost ten years between Turkey and Armenia have not carried out the diplomatic relations, as Ankara does not wish to admit the fact of genocide of Armenians in 1915. In addition, in 1993 after the beginning of Nagorno-Karabakh conflict Turkey had closed the border with Armenia and thus had shown the solidarity with Azerbaijan. One more irritating moment in mutual relations of Turkey and Armenia is the Russian factor. Ankara is dissatisfied that Yerevan in exchange for the guarantees of the safety actively supports military cooperation with Moscow. Presently there are some reasons of economic character that are able to bring two sides – Turkish and Armenian – to peaceful dialogue, but it is difficult to predict military cooperation in medium-term perspective.

Central Asia. In Central Asian region Turkey meets some political barriers and as a whole cooperation with each of Central Asian country is characterized as dissimilar and limited by external political factors and interests of regional powers.

The most effective cooperation in military range among Central Asian states Turkey carries out with Republic of Kazakhstan. The first military agreement between Turkey and Kazakhstan had been signed during the IVth summit of the Turkic states in 1996. Further it was supplemented with a number of other agreements and arrangements. So, on March, 15, 2002 defensive departments of two countries had signed the agreement on military cooperation on 2002. The document had been signed during the visit of Chief of the Joint Staff of armed forces of Turkey H. Kyvrykoglou to Astana where he had discussed with the President of Kazakhstan N.A. Nazarbaev "the prospects of military and technical partnership of two countries". The Kazakhstan Press-secretary had noted, that the signed plan of military cooperation provided the further interaction of air and naval forces of Turkey and Kazakhstan, and also the training of Kazakhstan students in Turkish military educational institutions.

In 2002 Ankara planed gratuitously to allocate to Kazakhstan armed forces about 1 million dollars, and these means had to be spent on the equipment for Special Forces of Kazakhstan army. Since 1998 Turkey had allocated to Kazakhstan already more than 2 million dollars. Presently in Turkish military institutions over 56 Kazakhstan students are trained.

As a whole there is need to underline that Turkey has no prospects for deepening of military cooperation in unilateral initiatives due to geopolitical strategic interests of Russia, which is number one military partner for Kazakhstan. But Turkey can use its membership in NATO, which step by step deepens military and political cooperation with our country through EAPC and directly being in Central Asia at Kazakhstan borders.

The second sufficient military-political partner of Turkey in Central Asia is Turkmenistan. Turkmenistan had fixed in the military doctrine, that it did not consider any state as enemy and that's why did not signed the Agreement on the Concept of military safety, and also Agreement of Collec-

tive Safety and a number of other documents of the CIS on questions of united military policy.

However, at the same time Turkmenistan entered strategic partnership with Russia and presently solves a lot of military questions on bilateral basis, including the protection of the borders. It is remarkable, that a lot of Russian military officers serve in its armed forces, and the Chief of operative group of military department of Russia at Ministry of Defense of Turkmenistan and Commander by boundary armies are included in structure of Council of Defense and National safety of Turkmenistan.

One more feature of Turkmenistan armed forces reformation process is that its officers study in military schools not only in Russia, but also in Turkey. The administrative board of the supreme and average link of military departments of Turkmenistan almost in full complement had training preparation (or retraining) in the corresponding Turkish centers. Some military structures are reorganized on Turkish model, for example, the militia is transformed into police department. Military departments and special services of two countries actively exchange with corresponding information.

Turkmenistan tries to play a double game in military policy – not denying the political ambitions of Russia in region and allowing the entering of new players for the amplification of foreign assistance in military safety guarantee or in case of change of geopolitical situation in region.

As to other countries of the Central Asia (Uzbekistan, Kyrgyzstan, Tajikistan) military-political cooperation of Turkey with them has not accepted those forms and scales as cooperation with Kazakhstan and Turkmenistan. The reasons of low active military cooperation lay in the field of diplomatic problems.

In example of Uzbekistan close military-political cooperation between two states had been adjusted in the beginning of 1990th years, and by 1994 the significant amount of cadets and officers of the Uzbek army was trained in Turkey. However due to Turkish authorities in 1994 had given a political asylum to many leaders of oppositional to the government parties "Birlik" and "Erk", all military students were withdrawn from Turkey together with students of others institutions. Moreover, from Turkey the

ambassador of Uzbekistan in Ankara was withdrawn too.

The basic form of military-political cooperation of Turkey with Kyrgyzstan also is preparation of the officer staff. However in many respects this preparation is carried out in other foreign countries, basically in Russia (on a basis of rather friendly and warm Kyrgyz-Russian relations).

As to Tajikistan, cooperation of Turkey with this country in military area (and in any another) is not meaningful owing to instability in it and incessant conflicts on interclan ground. Besides Tajikistan is included completely into an orbit of sphere of influence of the Russia.

Thus, 90th years have clearly shown, that Turkey is capable to become one of the main partners of the countries of Transcaucasia and the Central Asia in sphere of political, economic, cultural-ideological and military-political cooperation.

For today it is possible to define the following aspects of military cooperation of Turkey - Caucasus and Central Asian countries:

- ♦ Training of staff of armed forces of region countries in Turkish military educational institutions;
- ♦ Technical assistance from Turkey for modernization of defense establishment in countries of region;
- ♦ Economical aid for development of defense establishment in countries of region;

It would seem, that all conditions for preservation and further escalating of the presence and influence in these two strategically important regions, for restoration of the former greatness were created for Ankara. However there are a lot of the factors that negatively influence on Turkish policy in regions.

- First, the role and influence of Russia and, in particular, Iran which develops rather dynamically in a counterbalance of economic stagnation in Turkey have increased. Such problems as a Kurdish question, internal struggle between supporters of Islamic and secular ways of development, and also growing contradictions from EU concerning acceptance in the European structures, distract significant material-financial and political resources of Ankara that does not allow it to undertake active actions in the Turkic countries. Presently the continuation of "brotherly" relations of Turkey with heads of the states of Transcaucasia and the Central Asia

and local elites, or new course to emphasize on oppositional Islamic forces inside these states mainly depend on internal political situation. In case of realization of the second "strategic line" interests of Ankara in the greater degree will collide the interests of Teheran which traditionally emphasized on the cultural-ideological (Islamic) factor.

- Second, struggle for these regions today is entered by giants of the Western world in the head with the USA which in the beginning of new century have directly started their economic and military-political development. It means that function of Turkey as potential "bridge" and "springboard" between new Turkic countries and the West is reduced actually to zero. It is strengthened by military appearance of NATO forces in some of Central Asian countries and Turkey has no chances to active influence in region in medium-term perspective. But it is necessary to note that Turkey is NATO member-state, which is involved in postconflict adjustment in Afghanistan that allows Turkey to provide military appearance in Central Asian region through NATO initiative in ISAF, so there are some facts that can indicate possible activation of Turkish military policy in region.

Turkish policy in context of geopolitical interests of EU-USA-NATO in region

In spite of the fact that Turkey has not completely justified former hopes of the West countries, they assign to it already new hopes in a context of quickly varying conditions of global development. The main role of Turkey will consist not in assistance of integration of the countries of Transcaucasia and Central Asia with the western structures as such integration already has actually taken place in the form of all-round presence of the West in these regions and partially NATO, but in maintenance of separate elements of safety of the West.

As separate elements of safety are meant first of all energy safety directed on diversification of energy supply flows, and the military safety, called to fence off the developed countries of EU from numerous "centers of instability", and these safety making parts are closely bounded among themselves.

As example can serve realization of the project of oil pipeline Baku-Jeikhan worked out as a counterbalance of the Russian monopoly for deliveries of power resources, and also creation of the special military parts, called to provide protection and safety of this pipeline. Financial recoupment of the given project in many respects is connected to connection to it of Kazakhstan and Turkmenistan and consequently the countries of the West in the head with the USA will do all possible further to involve them in own structures and to promote strengthening of communications with Turkey, including military-political, most likely through structures of NATO, which considers Central Asian region as important geopolitical center to influence the situation in Afghanistan. Thus NATO can be expected in a sense as political catalyst for deepening of military cooperation of Turkey with Turkic republics of Central Asia.

Turkish policy in Central Asia has its features, which do not allow Turkey to stress on Islamic identity with new countries as Iran – so as Islam is considered to be one of the significant barriers for entering in European Union, so Turkey tries to seek for other ranges in bilateral relations.

Turkey is strategic partner of the USA, however the US part reasoning from own national interests consider Turkey as important element of geopolitical operational system in Middle East region, but not in Caucasus or less in Central Asia. The USA continuously undertake political, diplomatic and geo-economic efforts for orientation of Turkey to Middle East, as scene of military and political stressing, and example to it is US military operation in Iraq. But the problem is concluded not only in presence great military-political tasks in the Middle East, but and growing apprehensions in the USA in relation of Turkish military and radical political interference in South Caucasus.

By opinion of the US side an existence of Armenian-Azerbaijan problems, Turkish military presence in Georgia and geopolitical pretensions of Turkey in North Caucasus can result into problems for the USA that will limit their own opportunities in this region. In the USA recognize, that one of the most important barrier of strengthening of Turkish presence in South Caucasus is unadjustment of Turkish-Armenian relations.

The USA did not experience an enthusiasm corresponding to political intentions of Turkey in regions of Caucasus and Central Asia in previous 13 years. Practically the USA did not support Turkey's purposes to fix its monopoly and dominating leadership in given regions. The USA were interested in formation of ideology of Pan-Turkism, as cultural doctrine, including economical aspects, but in no way as geopolitical doctrine.

The USA earnestly enough had demonstrated their concernment in limitation of geopolitical part of Pan-Turkism doctrine. It appeared as the main factor of failure of Turkey's plans on creation of Turkish empire in Central Eurasia. Turkey's participation in military operations of NATO on Balkans and USA's in Afghanistan did not result to strengthening of Turkey's influence in these regions, and just put Balkan states, Central Asia, Russia, Iran and China on their guard.

The USA were interested first of all in development of relations between Turkey and states of Central Eurasia, hoping on demonstration of successes and advances of secular Turkish model of State system and social structure for Moslem states of these regions. Turkey was always connected with USA by geo-economic projects in Central Eurasia – GUUAM, TRACEKA, energetic communications and other projects of global idea of "Eurasian corridor". At the same time the USA always beware that active political and military-political entering of Turkey in given regions would challenge strong counteractions of other powers that would lead to possible interference of USA in new regional conflicts, in regional arms race and etc. The USA used participation of Turkey in force demonstration in several cases, and also in realization of some projects of military-technical cooperation with Georgia and Azerbaijan.

There are obvious signs that after September, 11 military-political governing body of Turkey came to a conclusion that more propitious conditions for realization of "the second expansion step" in Central Eurasia were created. Turkey again hopes on the USA's support however present period coincided with deep economical and state-political crisis, which shows not clear prospects. Turkey is disabled to realize military plans even in conditions, when it became mostly close to the USA as strategic partner.

Besides, in spite of expectations to become Eurasian superpower under support of the USA, Turkey gets into more deep geopolitical isolation – Turkey is surrounded with political enemies or with states, which are in fear from its expansive military pro-American development.

The US geopolitical task in relation of Turkey's presence in Caucasus-Caspian region is maintenance of tension in geopolitical triangle Russia-Turkey-Iran. In particular such situation, and not military and political domination of Turkey will allow the USA to realize effective policy in given region.

Conclusions

It is possible to make some conclusions in relation of Turkish military policy in Central Asia and Transcaucasia. Obviously it is seen, that Turkey as NATO member-state promotes alliance strategy in region in context of technical support to brother Turkic nations. Any military-technical and economic aid to development of defense-ability regions' states brings some discrepancy in technical equipment of armies and ideological contrariness of militarists, especially in states-members of Agreement of Collective Safety. At the same time Turkey tries to impose its model of interactions between Turkic countries, that especially interesting with leading role of Turkey.

Rough enough and aggressively selective is Turkey's policy in Caucasus, that results in intensification of

ethno-political conflicts in region, that is seen in Nagorno-Karabakh conflict.

Turkey – is enough active member of North Atlantic alliance, and technical support to Central Asian and Caucasus countries is carried out under the aegis of NATO, training in Turkish military institutions is held by NATO standards. Presently the following question is in great interest: what new approaches and ideas Turkey can suggest to NATO on Central Asian and Caucasus direction? After Istanbul Summit Turkey step by step begins become aware in new role: as guide making way to Muslim world for NATO.

- ♦ Military policy of Turkey in regions meets sufficient barriers in bilateral relations and political counteractions from the sides of regional powers such as Russia, Iran and China;

- ♦ Turkey is not able to carry out independent unilateral military policy in these regions beyond the strategy of NATO due to the interests of the USA and EU countries;

- ♦ Military policy of Turkey is not able successfully diversify without complete material and political support of the USA and NATO;

- ♦ Military policy of Turkey is under strict control of the USA, which consider these regions as vitally important;

- ♦ Turkey is not confident, that its sufficient spending in range of military-technical support to the states of Central Asia would result in strengthening of its political and economical influence.

Turkish participation in operation in Afghanistan raised a little its authority and allurements for Central Asian countries. Therefore, Turkey is considered in USA, as example and model of secular state for the states of Central Asia and Middle East, that is more important for the USA than strengthening of its military presence in Central Asia.

It is obvious, that failures of tries of Turkey to realize political and military entering in regions of Central Eurasia will be noted by Turkey and its policy in these regions will come more complex and versatile.

Having studied the conditions of south Caucasus, Central Asia and Caspian region Turkey has understood, that without military presence no any superpower, including the USA and Russia, cannot fix own positions thoroughly. Turkey works out plans on realization of rational policy of military cooperation and military presence in given regions. Activity experience of Turkish military contingent in Afghanistan, working experience of Turkish military instructors in Georgia and Azerbaijan is being especially studied. In Turkey understand, that it is necessary to develop different approaches in aspects of military presence in states of given region, with account of their relations with other powers, internal political regime and social-economical conditions. Turkey is able to realize these plans exceptionally in context of close cooperation with USA and at certain approval from the side of NATO.

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Russian-Georgian Relations: Status and Outlook

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INTRODUCTION

Russian-Georgian relations gained an impetus for change after Saakashvili had risen to power in Georgia. The metamorphosis at the top political level and the ensuing change of Tbilisi's foreign policy pushed Moscow to take a firmer stance.

Presently Russia and Georgia continue the game of position; Georgia is seeking to secure its national interests and assume a more influential role in the region and Russia is trying to regain control over the provinces it once controlled.

The first priority for the Georgian government is to restore the territorial integrity of the country by annexing South Ossetia and Abkhazia. In doing this, all the stakeholders face certain complications, particularly due to Russia's presence in these two territories. Tbilisi views Moscow as adding to the conflict rather than being a mediator. In light of this, Georgian authorities seek to increase the number of observers from OSCE and other international organizations, and to have other world powers, particularly the United States, involved in the settlement process. Because Moscow is not interested in immediately resolving the problem of the unrecognized states in the South Caucasus and the situation is becoming increasingly intolerable, the scenario where Russia will be ousted from the region is becoming more and more likely.

RELATIONS BETWEEN RUSSIA AND GEORGIA

Presently Russia and Georgia have several principal issues that need to be settled:

- the absence of a border between the two countries, which makes it impossible to control cross-border movements, particularly by Chechen guerrillas (Pankisi Gorge is definitely the most notorious site of illegal movement across the borders);
- territorial issues, i.e. the return of Georgia's lost territories (South Ossetia and Abkhazia);
- Russian military installations in Georgia; and
- some energy sector issues.

At the same time, Russia's freedom of action in the Caucasus is restricted by:

- a limited number and armament of its troops in the region;
- limited funding of the peacekeeping mission;

- the absence of an efficient system to deter and prevent incursions at the border; and
- the absence of a clearly formulated policy towards Georgia and its opponents on the issue of annexing South Ossetia and Abkhazia.

It is clear to Moscow that by taking an active stance and siding with either party it will expose its own territory to the risk of war. Therefore, it sticks to a wait-and-see position in the North Caucasus.

The political strategy of Georgian President Mikhail Saakashvili can be characterized as "violence without bloodshed". This strategy was best shown by the swift and efficient removal of the lawful head of Ajaria, Aslan Abashidze, without provoking bloody clashes or indignation from his supporters. At the same time, Saakashvili realizes that his policy to regain the lost territories needs external support, which must be strong enough to convince South Ossetia and Abkhazia that Tbilisi's intentions are serious.

Saakashvili's style is to create conditions that lead his opponents into making errors. This is how he defeated Shevardnadze, whose whole policy eventually turned out to be created from a chain of errors. Next, Saakashvili used this tactics against Abashidze with even greater success, and now hopes to outmaneuver the authorities of South Ossetia and Abkhazia the same way.

As for Russia, it should be interested in putting an end to the conflict in the South Caucasus since these problems affect the situation in the Russian North Caucasus.

The pro-American mindset of Saakashvili's government is evident from its regular statements proclaiming that Moscow is responsible for all internal and external problems faced by Georgia, and especially from the country's intention to join NATO, voiced by the President. Moscow's problem is its outdated way of thinking: it seems to be stubbornly relying on blue helmets (i.e. the CIS peacekeeping force) instead of seeking to mount a pro-Russian lobby.

At the same time, Russians realize that to be able to exert real influence in the region, they need to invest in local power systems and other forms of infrastructure, and not only stir up feelings of national liberation. In this context, predictable Saakashvili is a much more preferable figure to deal with, compared with the shifting regimes created in pursuit of a goal which is no longer relevant.

The two different players, Abkhazia and South Ossetia, are now playing by the same rules. *Their enemy is not Georgia, it is political oblivion.* In this sense they are

both interested in escalating their problem, or finally having it resolved, and will benefit from any additional tension around the situation. *Both Sukhumi and Tskhinvali are compelled to use the same rhetoric with the same refrain: "war is at hand!" Otherwise, they are likely to be forgotten and lose all of what they have achieved in the international scene.*

Unlike Ajaria, both the "legitimate" Abkhazia and "illegitimate" South Ossetia will not return to Georgia in the near future. This issue has not been closed, just frozen for a long time. Given the current rules of the game being played called "territorial integrity", the problem is definitely unsolvable. The two unrecognized states have been left alone, and this is probably their only achievement. Not recognized by the international community, they cherish hope of aid from Moscow.

The political triangle of one party struggling for territorial integrity, the second asserting its role as integral to Caucasian politics, and the third trying to attract international attention to its independence, which in fact is not threatened at all, will remain a viable structure for the next three years.

The socioeconomic situation in South Ossetia and especially in Abkhazia is quite difficult. Should Georgia annex Abkhazia, it will become a heavy drain on the country's resources for years, virtually with no payback. Georgia is definitely not in a position to pay such a price for its integrity, not to mention the potential military cost.

By now the situation with the presidential elections in Abkhazia has passed its critical point. This was in part due to indirect interference by President Saakashvili, who declared that Tbilisi's objective was to liquidate the unrecognized republic and return it under the control of Georgia. Both Abkhazian candidates were not comfortable with this stance and, as a result, Sergei Bagapsh and Raul Khajimba merged their efforts in the struggle for the country's main post. The merger of the two rival forces allowed Abkhazia to avoid the real threat of a civil war, which would have grown into a regional conflict in time.

Tbilisi's tactics in this situation is based on the following two points:

- Georgia does not recognize the presidential elections in Abkhazia; and
- Georgia is ready for a dialogue with whoever represents Abkhazia.

The question is how long Georgia will resist the temptation to openly meddle in the conflict. One cannot exclude that shortly after the elections Georgia will attempt to escalate unrest in Abkhazia in order to create an excuse for an invasion. In this scenario, the formal cause for invasion will be the need to protect ethnic Georgians in the Galsky area, which still remembers clashes and a Georgian exodus that had followed the local "parade of sovereignties".

South Ossetia has a somewhat quieter political situation and higher living standards compared with Abkhazia. The mainstay of the local economy is the Roksky tunnel under the main Caucasian range, which is a major route for smuggling goods into Russia. Any initiative to close down this hotbed of smuggling from either Georgia or Russia will automatically lead to major discontent and a decrease in the people's incomes in South Ossetia.

If Georgia succeeds in bringing South Ossetia under its control, it will have to close the Roksky tunnel and, at

the same time, invest in the creation and development of infrastructure and industry in South Ossetia. At this stage, such a plan is definitely unfeasible for Georgia.

Currently, Tbilisi views the restoration of the country's territorial integrity as its paramount task. Authorities feel a distinct lack of professional politicians capable of making adequate and correct decisions and foreseeing all their consequences. Tbilisi realizes that the situation calls for urgent measures, but it cannot afford to make impetuous steps or errors. In general, Georgia's strategy for regaining control over the lost territories appears unsound, as is evident from recent actions.

Today, Russia has no lobby in Georgia, nor does it enjoy sympathy from any of the local political parties. It should be emphasized that the absence of pro-Russian or at least sympathetic forces in Georgia is equally detrimental to the interests of both nations. In the absence of such political buffers, the bilateral Russian-Georgian relations will continue to follow a course of radicalization. Moscow should not miss its chance to create a pro-Russian lobby. If Georgia fails to achieve tangible political and economic improvements in the next six months, the population will grow sympathetic towards Russia. This will provide a basis for:

- mounting a pro-Russian lobby in the Georgian government; and
- forming a pro-Russian wing within one of the local political parties.

These foreign policy efforts aimed at stabilizing the situation in the Caucasus should be accompanied by furthering Russian energy sector interests through investing in the region.

For example, after buying the Batumi and Poti ports, gas pipelines and power grids, Russian companies will be able to control oil flows in the region and the situation in Transcaucasia. This could be used as a tool to exert control over Azerbaijan, Georgia and Central Asia.

In this respect the position of Moscow is clear: purchasing state monopolies and privatizing the economy in Georgia by Russian corporations means expanding Russian control over the Caucasus. This course of action is likely to lead to a situation in which Russia will be able to use economic pressure to control the situation in Georgia in both geographical and political aspects.

Russia's private sector has already started serious preparations for buying strategic objects with supporting infrastructure in Georgia. *When purchasing strategic objects, first of all, seaports, Moscow will make every effort to retain the Batumi military installation which is necessary for protecting Russian investments.*

Therefore, Russia, by applying various tools to exert pressure (supplies of gas and electricity, conflicts in Abkhazia and South Ossetia) will try to preserve the Batumi base as a military installation at all costs. Moscow estimates its chances quite realistically. A recent proposal to transform the military installation at Batumi into an anti-terrorist centre will most probably be declined, because in such a capacity it will not be able to protect the growing Russian economic interests in Georgia.

It should be noted that *today, as never before, the economic relations between the two countries are determined and directly dictated by big politics.*

Finally, it has become clear to Moscow that the Russian contingent in Armenia will be totally isolated should it hand over to Tbilisi the military installation at Batumi

(the main supply channel for Russian troops deployed in Transcaucasia). Its presence will become useless, as the whole chain of military bases along the borders of the former Soviet Union will be broken.

EXTERNAL FACTORS

Political processes in the Caucasus have long attracted the attention of the United States. In August 1993, J. Collins was appointed special coordinator for settling conflicts in the CIS, and the respective unit was created within the Department of State. Virtually these decisions marked the beginning of the US long-term course of action towards replacing the "internal" peacekeeping in the CIS with the "international" one, in which Russia would be robbed of its dictatorial role. In line with this course, the United States has become an active member in the OSCE Minsk group for settling the Karabakh conflict.

As for the geopolitical component, the priority of the United States in Central Asia has been to ensure that the foreign policy of Kazakhstan and Uzbekistan, the region's most important players, was as independent from Russian influence as possible. In Transcaucasia, the same emphasis was placed on Georgia and Azerbaijan.

In the mid-1990s, new dimensions were added to the US Caucasian politics, with the energy (petroleum) component being the most important one. To implement the geopolitically beneficial routes of the Baku–Ceyhan and Baku–Supsa Caspian pipelines (bypassing Russia) Washington needed to uphold the stability in the regions where the pipelines were to be laid.

Declaring the Caspian and Caucasian regions as an "area of vital US interests", Washington formulated these interests as follows:

- to strengthen the independence of the countries in the region (including independence from Russia);
- to reduce the possibilities of regional conflicts by involving these countries in international economic co-operation;
- to enhance the energy safety of the United States by using the resources of the Caspian; and
- to expand the opportunities for US corporations in the region.

Washington realizes that if the main pipelines are laid through Russian territory to Russian Black Sea terminals in Novorossiysk, Moscow will dominate in the region without the need to openly demonstrate its military force. According to this scenario, Russia will be able to take the position of power in sharing the region's energy reserves.

Therefore, it is critical for the United States to ensure that two pipelines are built, one through the Caspian to Azerbaijan and then to the Mediterranean, and one through Afghanistan to the Arabian Sea. Only in this way can the United States prevent Russia from establishing control over the region. Meanwhile, Georgian authorities hope to solve their problem of territorial integrity while acting as a promoter of US policy.

It is clear, however, that currently Russia is the only country that has the capacity to transport the majority of oil produced in the region. Caspian oil and its transportation are also important cards in the Caucasian game. Presently, there are five main routes to deliver Caspian oil to international markets:

1. Baku–Novorossiysk;
2. Baku–Supsa;
3. Tengiz–Novorossiysk;
4. Atyrau–Samara;
5. Neka–Tehran.

Their total throughput capacity is expected to reach 122 million tonnes in 2015; the Baku–Tbilisi–Ceyhan (BTC) pipeline is still under construction and is not included in the calculation.

The Baku–Supsa pipeline can be discarded due to its insignificant capacity, and the Iranian route is being opposed by the United States for political reasons. As a result, Moscow gains a powerful tool to promote its policy in the region, which is unacceptable to Washington. Thus, the United States is placing an emphasis on Azerbaijan and Georgia in its Caucasian politics. It might well be that the United States has already started to implement a comprehensive program to weaken Russia's position in the region by leading the Caucasian states away from Russian influence.

The Georgian government views joining NATO and broadening its military co-operation with the United States and other western powers as its priority strategic tasks. This policy is openly aimed against Russia.

Therefore, the withdrawal of Russian troops from Georgia will speed up the implementation of the above military strategic plans, which goes against the interests of Russia.

The hope that the new Georgian administration would take decisive diplomatic steps to force Russia to close down its military installations in Georgia has not come true. This became obvious after the peaceful resolution of the Ajarian crisis, when Moscow demonstrated its realistic understanding of both the potential of the Russian military presence and the strategic interests that other world powers might have in Georgia. In addition, by not interfering, Russia worked to prolong the life of its two remaining military installations. It is possible that Tbilisi will not touch this sensitive issue for some time as a sign of appreciation.

In recent years, the future fate of the Russian military installations in Georgia has been a permanent agenda in the Russian-Georgian dialogue, and a strong irritant in these two countries' relations with the West.

Firstly, its military presence plainly indicates that Russia has strategic interests in the South Caucasus, namely, Georgia. Moscow wants to be sure that under no circumstances will the Georgian territory be used by any forces threatening Russian national security. It must be acknowledged, however, that *Georgia itself has no military or economic potential to be a menace to Russia. The real threat is in the foreign policy of Georgia's administration that is gambling on the country's geopolitical and military position.*

Secondly, the priority of Russian policy in the South Caucasus and Georgia is to find solutions for Abkhazia and South Ossetia. The means with which Tbilisi intends to tackle this problem are unacceptable to the inhabitants of the two unrecognized republics (of whom 80-85% are Russian citizens) and to Russia. The use of military force to bring Abkhazia and South Ossetia under Georgian control is unacceptable as this will clearly cause a disaster. *If Georgia resorts to a forceful solution, Russia will have grounds for an invasion to protect its citizens residing in Abkhazia and South Ossetia.*

This position was made clear after Georgia's attempt to start a military campaign against South Ossetia and the tragic events in Beslan in September 2004. Any future

attempts by Tbilisi to destabilize the situation in Abkhazia and South Ossetia or, moreover, take military actions against them, will be resolutely opposed not only by the local population but also Moscow, who has already declared its readiness to launch pre-emptive strikes on terrorist bases located outside Russia.

In this situation the role of Russian military installations in Georgia may increase tremendously. Russia is determined to protect its citizens in Abkhazia and South Ossetia, and this intention is no longer doubted after the Beslan tragedy.

With the expected appearance of US military bases in the Caucasus, coupled with the completed introduction of "temporary" contingents in Central Asia, the United States will virtually close the ring of its military presence around Russia, which can easily be made permanent or boosted. In the east, the United States already has a loyal ally, Japan, who hosts the largest US overseas contingent.

In this context, the situation in Georgia can serve as a barometer of the quality of the new Russian-American partnership. The two pivotal questions are, how far Washington is prepared to go to support the Georgian administration, and how Americans will react to changes in Abkhazia.

Ousting Russia from its traditional weapons markets would be beneficial to the United States both commercially and politically, since supplies of certain types of weapons automatically render the recipient dependent on the supplier. Particularly, this is the case with the young CIS nations whose armed forces are poorly equipped due to financial difficulties.

It should be expected that the United States will seek to create a so-called "advance operating zone" in Georgia, where equipment and fuel will be stored, just like in the Persian Gulf. Thus, Americans will have a "virtual base" (a stock of equipment plus the friendly Georgian military) in the region, without any diplomatic friction that would have developed in connection with placing a permanent installation in a country where Russia already has two military bases.

The US Department of State pursues the course of the chosen foreign policy with an emphasis on oil transportation routes. At the same time, Washington makes attempts to win over Armenia, Russia's only strategic partner in the South Caucasus, and exerts pressure on Azerbaijan. The United States is determined to expand its influence in the region and gradually weaken Russia's position.

In conclusion, we could say that the United States penetration of the region's economy has the following underlying political goals:

- to minimize Russia's participation in the development of the Caspian resources and oust it from the regional transportation system;
- to create a "buffer zone" between Russia and China by bringing South Caucasian and Central Asian states under the political influence of the United States; and
- to continue with the political and economic isolation of Iran and to strengthen Turkey's position.

POSSIBLE SCENARIOS

There are three possible scenarios that would settle the dispute over the Georgian territories:

- Russia will recognize the independence of Abkhazia and South Ossetia and annex them;

- Russia and Georgia will establish a protectorate over Abkhazia and South Ossetia; or
- Georgia will bring Abkhazia and South Ossetia under its jurisdiction, subject to certain agreements with Russia.

Georgians make up nearly one third of the population in South Ossetia, where Georgian villages alternate with Ossetian ones. In the event that South Ossetia is annexed by Russia, the problem of Georgian residents will inevitably arise. Notably, this region has already reached a dangerously high level of popular discontent and implementing a Russian annexation will simply trigger off another Caucasian war. Both Moscow and Tbilisi acknowledge this.

Therefore Moscow, influenced by a strong lobby, avoids speaking about a de jure annexation of South Ossetia, and instead has adopted a strategy of de facto annexation via implementing a visa policy and wide granting of Russian citizenship to local residents.

In the scenario where Abkhazia joins Russia, this territory should become independent first. Once recognized by Russia as a part of Georgia, Abkhazia and South Ossetia would no longer be subject to plans of making these territories Russian dependencies. Any such attempts will qualify as aggression and work to escalate the conflict, not to mention a negative international response.

It is very unlikely that Moscow will try to place Abkhazia under Russian protectorate. Both the legal considerations and foreseeable consequences of such a scenario allow us to discard it. There is no chance that a Russian protectorate will be recognized internationally. One should remember that, historically, dependencies have existed not only by virtue of the will of a particular world power, but also upon consent of the international community represented by the League of Nations, the UN, etc.

Any attempts to establish Abkhazia as a protectorate of Russia will inevitably bring about frictions between Russia and the international community. Therefore Russia will avoid exacerbating the situation, concentrating instead on asserting its dominance in the region's economy and energy sector, particularly, with a view to install a more predictable and controllable government in Georgia.

There is only one course of action open to Georgian authorities: to recognize the residents of Abkhazia as Georgian citizens, but to refrain from any forceful actions. It is acknowledged by both Georgia and Russia that the reintegration of Abkhazia will take years. However, there is a chance that, by following this course patiently, Tbilisi will succeed in returning Abkhazia under Georgian jurisdiction in the medium-term.

On the other hand, the outlook for Abkhazia as an independent nation is rather poor. This territory cannot support an economy other than that of tourism and some farm production. But the tourist industry requires stability and investments, which will not come until Abkhazia receives a definite legal status. The level of service currently offered by the local tourist industry is clearly inadequate. As for agriculture, any upsurge in this sector will not be enough to close the gap in the financial and economic system of the unrecognized republic.

Foreigners seem to be reluctant to invest in Abkhazia, as they anticipate the reintegration with subsequent seizures of all previous investments by the Georgian government. With this in mind, Georgian-Abkhazian relations should develop in the following ways:

- economic development, i.e. creating a sound investment climate to attract foreign capital to Abkhazia and guarantee its safety;
- internal Georgian policy towards Abkhazia, including granting Abkhazia the rights necessary to develop the territory and allowing adequate representation in the Georgian government;
- social sector development, i.e. Tbilisi should promptly tackle the problems of pensions, social allowances, unemployment, etc.;
- energy sector development, which is expected to solve the permanent problem of power supply in Abkhazia and provide additional jobs to the population; and
- interethnic relations, i.e. a thoroughly designed state program should be put in place to maintain an internal dialogue and mitigate confrontation inherited from the late 20th century.

The problem facing South Ossetia is unlikely to be resolved in the medium-term. The main obstacles are:

- resentment of the Ossetian people after the Georgian-Ossetian conflict;
- absence of an efficient economic program that would support the economy of South Ossetia at an early stage and stimulate it;
- lack of funds for resolving the problems of South Ossetia;
- the difference in living standards, which are higher in South Ossetia; and
- the reluctance to grant South Ossetia more rights compared with other Georgian regions.

A forceful annexation of South Ossetia is hardly feasible, since Georgia has no resources of its own to do so, and the combat capability of its army is still low despite optimistic reports by US instructors. However, due to a well-organized PR campaign, the Georgian population believes that Saakashvili's administration is making significant progress in all spheres including national defense.

On the other hand, in recent months the armed forces of South Ossetia have been reinforced with Russian armor (concentrated in the Java area).

It is clear to Tbilisi that the authorities of South Ossetia are backed by Russian troops. In the event of a direct Georgian offensive, the 58th Russian army deployed in South Ossetia will be able to decisively resist it.

Georgia and South Ossetia seem to estimate their strength realistically and understand that there will be no winner should they engage in an open conflict. *In addition, South Ossetia will certainly be supported by Russia while Georgia will have to rely on its small army, limited budget and possible aid from the United States.*

Theoretically, should Georgia succeed in regaining its territories, it will serve as a catalyst of the same processes that took so much to stop in the early 1990s. *The territory gained by Georgia will pose a challenge to other political leaders in the South Caucasus who might feel obliged to do something similar for their peoples.*

For example, Azeri President Ilham Aliyev will definitely find himself in a more difficult situation than half a year ago. He will be forced to radicalize his stance in the Karabakh issue, and this in turn will result in additional tension in the region.

Now, the Georgian authorities bear full responsibility for the political, economic and social life of the country, as they no longer have excuses, such as the absence of a new parliament or the Ajarian problem. Today's main focus is the economy. However, to date the government has done little in this direction, promises apart. It should be expected that by spring 2005, social tension will increase in almost the entire Georgian territory. When this happens, the government's attempts to impress the public with successful foreign policies will be of little help.

Despite Tbilisi's recent statements, Russia understands that a stable Georgia is the key to a predictable Caucasus, and therefore any changes in Georgia will influence Georgian-Russian relations. The conflict between Russia and Georgia is likely to remain latent. Judging by its recent moves, Georgia is trying to show Russia and the United States that it has the potential to defend its national interests. It is clear, however, that its limited national budget will not allow Georgia to take any radical actions towards South Ossetia or Abkhazia.

China: Reforms, their Results and Country's Perspectives in the 21st Century

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(Continued from No. 4, 2004)

Problems of Present-day China and Ways to Solve Them

The political situation in China is clear: the Communist Party of China is not going to let the reins on government slip, but, being affected by developing social processes it is reforming itself as well as the entire community democratically. At the same time, the social and economic development of the country is full of contradictions.

Usually research, when analyzing the situation in present-day China, after itemizing the country's numerous and undeniable achievements in its GDP, volume of foreign trade, calculation of the time it needs to leave Japan and the U.S. behind economically, proves that Beijing will inevitably face problems that are difficult to solve, which are likely to interfere in the country's realization of all it has planned. In the end, China will be prevented from accomplishing modernization, becoming a world or regional leader and having political stability in the future.

Therefore, experts have inferred that China is not being faced with external threats, but internal ones connected with such phenomena like social stratification, regionalism, separatism and a high pressure economy, etc. It is admitted that until these threats can be controlled by central authorities, Chinese reform will fail. Can we agree with this opinion?

After examining the situation in October 2003, Russian expert analysts

ranked the risks and threats faced by China as follows, starting with the most dangerous¹:

1. The greatest negative challenge faced by China is that the Chinese community as well as the economy is still in **transition**. This causes contradictions between the economical pluralism and the party's monopoly of power, which in turn causes the main recessionary trends seen in present-day China.

At the same time, it is evident that there is nothing unnatural about this transitional phase; such periods take almost the majority of the history of any social formation. As for China, it would be really hard to deny the fact that the communist party is wisely governing economic reform and that its activities are in no way detrimental to the social welfare; however, China is preventing many negative trends and prevailing over them.

2. Another dangerous threat that may be observed in the future is **contradictions among the Chinese political elite**. "Resistance from a considerable portion of former Communist Party leaders to fasten reforms is becoming weak, yet is still obvious," according to the research analysts.

This statement is hard to agree on after observing the trends that grow within the Chinese ruling elite. They have been undergoing certain metamorphoses for the last twenty years, which involves both the personality of its members and the essence of their activities. These changes, based on the new economic reality in the Chi-

nese community that has been undergoing reforms for years, have revealed themselves in the so-called "leader's generation change" – retire of the third elite generation and rise to power of a new generation, headed by Hu Jintao. However, it would be wrong to state that the elite has become weak: despite such challenges as the spread of the mass movement Falungun, an atypical pneumonia epidemics, growing confrontation around the Taiwan Strait, etc., they have remained stable and become much more consolidated having shown their ability to withstand any adverse conditions.

The Chinese political elite is reforming itself, but horizons of such reforms are still not clearly seen. At the same time the fact that the elite is interested in its own survival provides them with considerable consolidation and evolutionary potential. A large portion of the mass media stated that there was a deep disagreement between "the old cohort" of the Chinese leaders headed by Jiang Zemin and the new generation led by Hu Jintao. Many observers believed that this disagreement inside the elite would last, since the country's ex-leader, having left in March of last year, remained as a chief of the key body in the state – the Central Military Commission of the CPC. The latest staff appointments within the party must dispel any doubts concerning the lack of unity among the elite.

The recent Plenum of the Central Committee of the Communist Party of China (Plenum IV of the CC CPC of the sixteenth convocation on Septem-

¹ Материал, подготовленный по результатам ситуационного анализа, проведенного российскими Советом по внешней и оборонной политике и Институтом внешней и оборонной политики (руководитель проекта – С.А. Караганов) "Современный Китай: вызов или открывающиеся возможности?" // <http://www.globalaffairs.ru/numbers/7/2046.html>

ber 16-19, 2004) adopted the "Resolution on the Resignation of Comrade Jiang Zemin from the Post in the Central Military Commission of the Communist Party of China." Surely, Hu Jintao's candidacy for this post was immediately approved. The Chinese ex-leader is likely to vacate his office in the Military Commission next year; the National People's Congress should approve his application for resignation at its regular session.

All of the above mentioned allow conclusion that the ruling elite possess considerable resources to develop and strengthen it, which will surely help to reserve its power in the country for the medium-term and maintain stability in the society despite the probable outcome of reforms within the party.

3. The Party's course of action for "uneven development", which Beijing was forced to accept on Deng Xiaoping's initiative, has been causing a lot of problems. According to this course, wealth is not more evil and it will have a positive effect on the country if a portion of the society becomes well off faster than the other, since it is impossible to provide each part of the society with an equal opportunity to improve its living standards simultaneously with the other. Thus, it was declared that there would be unequal living standards in the country. As a result, a great gap between the levels of development of various social groups and regions can be observed in the country, which presents a real problem.

The problem has two levels. The first level is the stratification of society. Two obvious layers in society have appeared as a result of years of reforms: the really rich and extremely poor. According to official statistics, the latter makes up 3 percent of the total population (they accounted for 25 percent twenty-five years ago). Ten percent of the poorest families in China own 1.4 percent of the total volume of property, whereas 10 percent of the richest families own 45 percent.

It is indicative that poverty used to be associated only with villages. According to the Asian Development Bank, today the number of townspeople whose income is lower than the minimum level of subsistence, which is rather low too, reached 37 million (or 8% of the total number of towns-

people in the country). The difference in income between townspeople and villagers is 3.24:1. In addition, the unemployment rate is increasing, even though the GDP growth rate is 7 percent and ten million new jobs are created each year. At the same time, the number of people annually dismissed from public industries and officially registered as unemployed is in excess of two and a half times more than the number of new jobs created annually.

On another level of the situation, the gap in the development of Eastern coastal and Western inner provinces has become extremely wide. In fact, some governors of the Eastern regions sometimes refuse to obey orders of the central authorities to support economically backward Western regions within the framework of approved projects. The richest province of Eastern China is tenfold richer than the poorest Western province. The state of affairs is exacerbated by the fact that the number of provinces who have the ability to act as donors is less than those in need to be systematically and sufficiently supported.

Stratification of the community is a painful topic of present-day China. But, it is a fact of the policy carried out by the communist authorities. The systematic realization of social programs by Chinese authorities deserves the highest mark. A few years ago, the social and economic policy of Beijing was changed from "let-some-people-line-their-pockets-faster" to the support and development of the majority of Chinese communities and backward regions. This change resulted in the program *Syaokan*, which was declared as the basis for the government's social policy in 2001.

Today, the country's motto is "to build a community of Syaokan", i.e. "a small means society" or "tolerable societal prosperity." Traditionally, this means a country where its population is provided with the minimum material benefits and neither class has limited access to the achievements of the civilization due to the people's ability to pay. In addition, *Syaokan* envisages not only a substantial advance in the living standard (up to the level of countries in which their population has a medium income or even higher levels), but increase in the literacy rate, life span and, what is

especially important, the elimination of extreme poverty in the majority of rural communities.

In this context, the state of affairs in the country is improving, although the process is likely to take much more time than originally expected by its authorities. At the same time, Beijing does have the instruments necessary to, first, eliminate the consequences of the long-term depression and lack of economic pressure on society, secondly, to normalize the economy in all regions enabling them to develop themselves independently, and thirdly, to eliminate disagreements within the society.

The strategic program for global development of the Western regions of China, which was implemented in the late '90s, deserves particular attention. It has already had an enormous impact on 12 regions in the West of China.

Among some of the possible problems, the most probable in the future is the expected high pressure economy. A year and a half ago, Chinese economists observed this trend. Moreover, the level of inflation is going to reach 5-6 percent, which is considered dangerous in China. But, the economic forecast is positive for the country, since it has been experiencing heavy economical growth due to positive conditions in the world, which is sure to continue.

Another problem of strategic importance for China is that the Chinese economy is lacking transportation, energy and raw material resources. The solution to these problems, especially concerning hydrocarbon resources, is generally dependent on the country's foreign policy, the results of which will be determined by its general economical horizons. Such a vicious circle predetermines the interdependence of the social and economic development of China and its steps towards foreign policy. These factors will have the strongest impact on the future development of the country.

At the same time, some economists, including Western ones, say that China will have at least 4-5 years of dynamic development². Others state that the country will not face a system crisis for the next 4-6 years which would lead to the collapse of its governing institutions³. Some ex-

² Салицкий А. Модель китайской сборки // <http://www.globalaffairs.ru/region-deast/articles/0/2784.html>

³ Материал, подготовленный по результатам ситуационного анализа... Там же.

perts concluded that in the medium-term outlook (i.e. 7-15 years) the probability of such a crisis in China is incremental.

Based on our analysis, we believe that the probability of crisis that may take place in China will not happen for another ten years, since the facts confirm that Beijing is able to overcome all negative trends, soften the problems in the social sector and provide its economy with conditions for further growth. The Communist Party of China will succeed, if particular attention is paid to the social sector. It is obvious that the Chinese social problems attract the attention of foreign observers: traditionally social revolts have always played a dramatic role in the state history pushing it to new stages.

Tianan Men-89 and Ethnic Separatism in China's Outskirts

The key element of present-day China is global social and economic reforms shaking the buttress of its society. Reforms are carried out under stable conditions: China remains one of the most secure countries to live in, the standards of living in all sections of its population are gradually improving, riots and civil commotion happen seldom, at least, they are so insignificant that any minor uproar (for instance, the recent strike of depositors cheated by a bank) is in the limelight of foreign countries. The major and the most tragic event was the riot that occurred on the main square of the capital fifteen years ago caused by an explosion of protest energy accumulated mainly among the students from large cities.

Tianan Men-89 is still having an adverse effect on the CPC international reputation and, to some extent, on the country's development of its military force⁴. It should be pointed out that the demonstration in Beijing was not "a spark at the powder storage" and, despite all forecasts, the movement did not continue. Yet, authorities have maintained and even strengthened a stable and controllable environment in the country.

At the same time, even taking into account the cruel way that the May demonstration was strangled, China

cannot be considered as a country with classical police-ridden states. Therefore, the current positive atmosphere in the Chinese community shows that the government has chosen the right direction, objectives and speed of reforms being carried out. Generally, the government keeps pace with the speed of community development.

Besides the campus unrest, Beijing faced another grand problem over the years of reforms – separatism in some Western regions populated mainly by national minorities.

In the 1990s, the Xinjian Uygur Autonomous Region was a real hotbed of tension, because of the outburst of terrorism based on the nationalistic movement in this region. Separatism of a part of the Uygur population, instigated by modernization and the country's policy of openness that had allowed external influences to affect the region, could have become a "non-healing wound" of the country (like the Chechen "problem" for Moscow) and ruined the state's development process. Chinese authorities managed to settle this sensitive issue by the turn of the twenty-first century. The Xinjian population, which was among the poorest in the world not long ago, has been living peacefully in recent years, improving the region's economic development and gradually forgetting those blood-and-guts terrorist acts.

Beijing used a complex of measures to control the separation attempts: from military, pre-strategic and intelligence to social and economic actions. It tried to completely integrate the population in the distant and problematic regions and provide them with stable conditions for development. It is indicative that ideological and outreach measures are of great importance in the country's activities and, as a rule, lead to an enormous effect. We believe that all countries facing problems of domestic terrorism should take into account the experience of Chinese authorities.

The Formula for Success

In analyzing the reforms carried out in China, the first point to have attracted our attention was its ideolo-

gy. Though it is obviously not the major means of the country's total achievements, China would not be China without ideology in its life.

What is behind that stock of power and resistance of the Chinese people that gives them the courage to solve the country's problems, even those considered "insoluble" such as overpopulation?⁵ One should remember that the Chinese population is no longer in a condition to be easily manipulated; today the state is cooperating with its own people based on another motivation and applying other instruments. Patriotism, amazing cohesion of the Chinese people and its confidence in the government direct these relations. As it was pointed out, patriotism is a strong binder of the Chinese nationhood.⁶ Such cohesion is typical not only for nations of traditional psychology based on collectivism, as it may appear for the first time. As a rule, we can observe high cohesion and readiness to follow the government's policy in the so-called "Great Powers", as well as in those conducting aggressive and invasive foreign policy.

Patriotism in China seems to have acquired perfect characteristics. Love for the native country and loyalty to the ruling elite are stimulated by continuous social progress, improvement of the people's living standard and confidence in the future. Such optimism is a specific feature of the present-day Chinese community, which is favorable compared to Western societies that seem to have lost the space for the further development and basis for mass optimism due to their own level of development.

At the same time, Beijing keeps on creating a *national image*. One should be sure that Chinese authorities will not come to a dead-lock in their activities and the Chinese national unity will be strengthened even more. It should be pointed out that the state policy of strict control over population growth envisages *improving its quality*.

Speaking about present-day China, the first point that attracts everybody's attention is the unprecedented experiment carried out by the ruling Communist Party. The combina-

⁴ In June of this year, Beijing's attempt to have the EU arms embargo abolished, which had been imposed on the country just after putting down the demonstration in 1989, was not crowned with success again.

⁵ According to the Chinese Statistics Department, China has been included into the list of countries with low birth rates. A year ago, the population reached 1,292,770,000 people, thus making up 21% of the world population.

⁶ Токаев К.К. Преодоление. Алматы, 2003, - с. 35.

tion of socialism and a market economy, the essence of this experiment that has been being carried out for more than twenty years, still arouses a lot of disputes over the compatibility of such a symbiosis. At the same time, it allowed the most populated country in the world, which was among the poorest and the most underdeveloped countries in the early 80s of the last century, to become a regional leader and even a real force through its foreign policy, standing hand in hand with the economic giants and the third space power—the country whose ability to rush to new achievements makes the world community stare and whose opinion cannot be ignored.

All of the above mentioned is indicative of the fact that China managed to create a formula for deep reformation of its administrative and command systems, thus transforming itself into an advanced country with a market economy. In addition, more and more nations are going to consider China as a market economy country. Some other socialist states are following the same path in their development: Laos and Vietnam, for instance. Though they can also be proud of their economic achievements, they are less indicative because of the deep difference in their social loads that the governments of these countries have to bear (the population of China is 1,285,000,000, Vietnam—76,000,000 and Laos—about 5,000,000), and because of the participation of Vietnam and Laos in ASEAN, a prosperous establishment of Southeast Asian nation integration, which promotes rapid economic reforms.

In spite of many pessimistic expert opinions, Chinese authorities use

a combination of strict dosages of economic conversions with actions to strengthen the existing political system, which is a rather livable variant of social reorganization. It clearly illustrates that the public administration of the economy still exists. State interference in the economy is needed until powerful national corporations have appeared which could take over a part of the world market and thus protect national interests. As we can see, one of Beijing's principal instruments is the leading role of the central authorities: the market determines the policy of the enterprises while the state regulates the market.

Some waves of decentralization of power occurred in the course of reforms in China: Beijing deputed powers to the regions while the influence of the central administration and national companies gradually decreased. But, from the mid-90s this process took another direction. The government's influence on the economy has been heightened since then. The lowest budget share in the GDP was registered in 1995, at 11.5%. Currently, the national budget totals 22.5% of the GDP. The allocation of national expenses to the central and local budgets is 70:30. The government's influence is increasing while the country is mainly developing its market conditions. The central authorities are also of considerable importance with regard to the redeployment of resources. Speaking of other sources of development in China, it is impossible to open them up without the leading role of the central authorities.

The following factors determine the direction of China's development: the mobilization of the country's own potential supported by a broad do-

mestic market, considerable investment potential of internal money saving, favorable global and regional conditions, integration into the world market, circumspect strategy of national enterprise privatization, the increase in private sector capital, achievements in science and the growth of technology. The latest factors are actively used to solve present-day problems connected with the lack of natural resources and the worsening ecology. Ma Kai, the Head of the State Committee on Development and Reform, admitted that present-day reforms in the country are based on a "high level of investment, consumption and pollution."

The banking system, basically consisting of public banks, plays a special role in the country, as well as the liberalization of the national financial system, mechanism of monetary stock administration (if the level of inflation becomes too high, the government will immediately reduce the money supply and loans) and real estate market management (also by administrative means) in order to keep the market from "overheating."

Generally, concerning the economic growth of China, the country considers itself as a country going along the well-known road of economic modernization using all market laws and international economic activity unlike in its political modernization, since the country observes its own "specificity." At the same time, China holds a particular position in the line of transitional countries due to its achievements in the economy. Taking this into account, Kazakhstan, irrespective of the neighboring country's future, will "feel" any changes in China.

Prospective Development of Kazakhstan's Innovative Competitive Economy

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Kazakhstan's social and economic development has had significant positive changes for the last several years. Reforms that have been implemented and a number of other important factors have maintained the macroeconomic stability in the country.

One can say that the country has taken the path of sustained economic growth. Kazakhstan has rather good economic performance and, without a doubt, is one of leading countries among the CIS. The annual economic growth ranged from 7-10% on average for the last four years. For example, Kazakhstan's GDP amounted to \$37 billion by late 2004 with a growth of 9.3%. Some financial institutions are being developed in the country; social reforms are being successfully implemented; and pension funds and insurance have successfully entered the markets are in progress.

All three leading international rating agencies Moody's, S&P and Fitch raised the investment credit rating for Kazakhstan.

However, alongside with its achievements, a lot of threats to Kazakhstan's economic security exist, which become more pressing with the growth of globalization and improvement of competition from international corporations.

Globalization has positive and negative influences. Major countries take advantage of globalization by actively *participating in the international division of labor, and introducing innovations and know-how. Advanced nations also have developed models of integrating some industries with transnational corporations and received assured access to external markets.*

As for Kazakhstan, globalization presents a number of great **challenges**:

- ♦ niche specialization in the primary sector of the world economy;
- ♦ reduction of the state's role and an increase of the importance of transnational corporations, financial industrial groups and international organizations;
- ♦ technological underdevelopment of national businesses that cannot compete with transnational corporations.

These trends are combined with the following urgent threats to the economic security of the country:

- structural distortion of the economy;
- technological underdevelopment;
- black economic activity;
- unbalanced social and economic development of the regions;

- poverty, differences in income, poor quality of life.

♦ **Structural distortion of the economy**

The economy became structurally distorted as a result of two major reasons: irregularity and the imbalance between extractive and processing industries in Kazakhstan.

Currently, *mineral extraction* (oil, gas, metallic ores, and coal) accounts for **44%** of the industrial structure, whereas the share of processing industries is very small: the *chemical industry* accounts for **1%**, *oil refining* **3%**, *machinery producing industry* **3%**. The sectoral structure of industry is changing, mainly due to macroeconomic, regional, sectoral and financial problems. The most vital problems are:

- an imbalance in economics by location according to territory, consequences of which are differences in the social and economic development of the regions;
- the dominance of the primary sector in the structure of industry, which has caused an inefficient economy as a whole due to its strong dependence on price conditions for raw materials (oil, metals, etc.);
- an absence of integrated industrial complexes with a complete production cycle: from extraction to production output;
- a high level of the capital consumption reaching 60-70% in some industries and, as a consequence, low production competitiveness due to quality, price and other parameters, and high operation and maintenance expenses.

Different growth rates of some industries result in a change within the structure of industry, and the number of extracting industries, chiefly oil and gas production, is increasing.

♦ **Technological underdevelopment – a low share of knowledge-intensive production**

In Kazakhstan, the financing of science accounted for 0.20-0.25% of GDP for the last five years, which is dramatically insufficient. In accordance with recommendations of the UN, financing should be no less than 1% of GDP. The portion of science and scientifically innovative institutions amounted to only 0.9-1.2% of Kazakhstan's GDP in 2000-2003.

♦ **The existing level of the black economy**

According to experts, the black economy is currently more than 40% of the entire domestic economy resulting in lost taxes and an ineffective tax regime.

It is difficult to assess the black economy quantitatively. Taking into account such factors as illegal business and tax evasion, we can suppose that the actual

Kazakhstani GDP is on average two times more than it is in official statistics.

In such conditions it is difficult to assess the actual scales of economy and regulate economic processes most efficiently.

♦ **Unbalanced social and economic development of the regions**

An increasing imbalance in the social and economic development of the regions is becoming a potential threat to the sustained development of the economy as a whole.

The reasons are as follows:

- qualitative changes in the gross regional product structure;

- fast transition from an agrarian economy to an industrial one;

- increasing disparity of income between regions.

The main index describing the imbalance in the social and economic regional development is the Gross Regional Product (GRP).

The per capita GRP of industrially developed oblasts (Atyrau, Karaganda, etc.) exceeds the national index by four times, whereas the per capita GRP in depressed regions (Jambyl, Kyzylorda and South Kazakhstan oblasts) is three times less than the national index. This shows an essential gap between the developed and depressed regions. Eight oblasts of Kazakhstan (50%) have a per capita GRP less than the national index.

In general, the unbalanced development of regions causes increasing security threats such as high poverty and unemployment, poor quality of life, and reduced access to education and health care.

♦ **Poverty, differences in income, poor quality of life**

Poverty, differences in income, and poor quality of life remain urgent threats to the social and economic stability of Kazakhstan.

According to international practice, the cost of the food basket amounts to 30% of the subsistence minimum. Consequently, the official subsistence minimum is greatly underestimated. For instance, in the first half of 2004 the subsistence minimum amounted to about 5,300 tenge, which includes the cost of the food basket amounting to 3,700 tenge. According to international standards, the low-income poverty threshold must be 11,047 tenge, i.e. two times higher. So, a **fifth of the country's population actually lives in poverty.**

In order to further development, Kazakhstan should raise the economy's competitiveness. The key approach to solving this problem is determining and developing "strong spheres and different aspects of the country's economy", and then creating industrial clusters.

The main directions of economic development in the middle-term perspective must be:

1. Intensification of the country's industrial innovative development;
2. Further integration into the world economy;
3. Regional development by enhancing their potentials;
4. Development of the country's agribusiness.

1. Intensification of the country's industrial innovative development

Kazakhstan is developing a competitive economy based on the innovative industrial sector. Innovative processes have not yet achieved expected levels due to the absence of an efficient state mechanism for implementing innovative policy.

Elaborating the mechanism of the innovative economic development is a top priority for Kazakhstan, since the most important middle-term task is creating a **competitive industrial sector with a large share of finished-product output.**

Therefore, the coming years must be one of milestones in the country's development in the following directions: encouraging the introduction of high technologies; broadening cooperative relations with leading industrial corporations; creating a favorable tax regime; implementing an appropriate mix policy promoting the development of scientific studies, innovative business activities, and export-oriented production; training highly qualified personnel to work in scientific engineering and innovative spheres; forming an innovative infrastructure of technoparks, technopolis, and business incubators.

The priority of economic development is the manufacture of competitive products using high technologies. Production must include the **entire work cycle** from extracting to sales to final consumers.

For attaining this goal, it is necessary to:

- a) **use the cluster approach** to industry development.
- b) **form high technology zones.**

Using the cluster approach to industry development.

Since July 2004 the national government has been implementing the project Competitiveness of Kazakhstan and Prospects of Cluster Development within the framework of the Program of Industrial Innovative Development of the Republic of Kazakhstan by 2015.

Kazakhstani experts predict that forming sectoral clusters will promote the introduction of high technologies to industry, output of high value added products and, as a consequence, creating of the competitive economy and achieving of steady economic development.

The Strategy of Industrial Innovative Development of the Republic of Kazakhstan by 2015 aims at diversifying Kazakhstan's economy from the trend focusing on the primary sector to organizing processing enterprises that use up-to-date technologies (engineering, oil and gas processing industry, chemical industry, etc.). This will increase the competitiveness of the economy in the world market.

First, the cluster approach will be applied to such industries as the petrochemical industry, agribusiness, metallurgy, engineering and power engineering.

In the **petrochemical industry**, it would be wise to create a technopark and a cluster containing the domestic base of natural resources and present technologies, fine refining and processing of hydrocarbon materials, and the output of petrochemical goods (ethane, liquefied gas, dry gas, polyethylene, polypropylene) complying with good international practices. Finished products may be used in the processing industry in Kazakhstan and abroad: Russia, China, etc.

Petrochemical enterprises may be located close to oil and gas fields, i.e. in the western and southern regions of Kazakhstan, which have a significant foundation for developing the petrochemical industry: Atyrau Oil Refinery and Tengiz Gas Processing Plant (Atyrau oblast), Kazakh GPP (Mangistau oblast), Zhanazhol GPP (Aktyubinsk oblast). It is possible to increase the processing of raw materials after upgrading production facilities considerably.

Forming high technology zones. High technology zones may play a significant role in implementing the innovative policy. Taking into account the experience of existing technoparks, it would be reasonable to create and

develop high technology zones in Atyrau Oblast (petrochemistry), Almaty Oblast (biotechnology), Pavlodar Oblast (machine-building complex and professional equipment), and Aktyubinsk Oblast (metallurgy). The aim of organizing them is to attract foreign investment into leading industries and developing new technologies and materials. In our opinion, in order to achieve this goal, it is necessary to elaborate the intricate Program on Developing High Technology Zones in Kazakhstan.

In Almaty Oblast, a high technology zone may include a number of technoparks specializing in the agro-food sector. Here, experts in microbiology, genetics, biochemistry, veterinary, entomology, biotechnology, etc., will work on developing new technologies for growing fruit and vegetables, fishery and using sea goods.

Atyrau Oblast has a significant scientific and technical potential and possesses great opportunities for the innovative development. The high technology zone may specialize in developing technologies for processing oil and gas.

In this regard the state should provide effective mechanisms on establishing connections among universities and scientific centers, enterprises, regional and local government authorities.

The development of agribusiness, arrangements on developing regions using their economic potential, developing inter-regional relations and investment projects, financial support of lagging regions and improvement of inter-budget relations will promote the social and economic development and decrease the imbalance in the regional development of Kazakhstan.

2. Further integration into the world economy

Kazakhstan as an independent state should determine **its place and role in the system of international trade and international integration**. As we see it, Kazakhstan must enter World Trade Organization in 2005-2010.

Entering the WTO will offer some advantages, including the regime of the most favored nation treatment when trading goods and services with WTO members, access to the international mechanism of resolving trade disputes, participation in working out international trade regulations taking into account national interests, and conditioning the national trade legislation in accordance with international standards.

During the preceding period the national legislation has been conditioned in accordance with WTO regulations and standards. Obviously, the country has accessed the international unified legal space which provides all exporters and importers with stable and predictable conditions for activity.

3. The policy of creating equal regional development in Kazakhstan

In the short term it is necessary to develop an effective policy to create equal social and economic development of the regions, which is **extremely important** for the development of the entire country.

The existing problems in maintaining a balanced regional development create the need to determine the basic directions of the current regional policy of the country and **implement an efficient one**.

The Program of Developing Inter-regional Relations will be worked out and introduced in order to promote the development of lagging regions still receiving subsidies and to support developed regions.

The Program may help to solve the problems caused by the imbalanced regional development by stimulating economic development in the regions themselves, developing processes for interregional integration in different directions, in particular, in industry.

In our opinion, it is possible to achieve the country's main target: sustained "self-development" of depressed and weakly developed regions by creating new work places and preserving existing ones, developing the infrastructure, diversifying enterprises and extending the local tax base. In doing so, it will also promote solutions to urgent social problems.

The nation should pay special attention to **the improvement of inter-budget relations** and giving more freedom to local authorities. This will help to solve most problems that have led to severe differences between the regions and will build incentives for further regional development.

Having more economic freedom, especially, when forming the budget, local authorities may solve regional problems more effectively and timely.

4. Agribusiness development

The state has been developing the country's agribusiness for the last three years. The **State Agro-Food Program of the Republic of Kazakhstan for 2003-2005** was successfully implemented.

There is an urgent need for **agribusiness** to enter the new phase of development. In order to improve the competitiveness of agribusiness when Kazakhstan enters the WTO, the state shall form an effective system for agribusiness, streamline measures of support for the agricultural industry, and optimize agribusiness management.

The state's vital task is to **attract investments into agribusiness development** that will introduce innovative processes at processing enterprises. These new processes must upgrade production and create vertically integrated systems containing raw material suppliers and stably operating processing enterprises.

For instance, creating integrated clusters in the agribusiness will help to overcome technical backwardness of rural enterprises, increase the efficiency of agriproduct processing and develop the rural infrastructure. Everything mentioned above will facilitate the country's agribusiness to become one of the most important and competitive sectors of the country's economy.

In light of entering the WTO, special attention should be paid to toughening certification requirements, transferring to ISO standards, and adjusting technical and process standards of production and quality control of agriproducts to adhere to international standards.

In conclusion, we can say that innovative processes in Kazakhstan's economy are only gathering momentum. Extractive industries still remain predominant. However, if effective mechanisms are created to implement the Strategy of Innovative Policy, Kazakhstan has every opportunity to become one of the 50 most competitive countries and, probably, join "G20".

The Common Economic Space: Problems and Outlook for the Future

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The Agreement on the Common Economic Space (CES) uniting four CIS countries – Belarus, Kazakhstan, Russia and Ukraine – was signed in Yalta in September 2003.

When advancing the initiative to establish the common economic space, the presidents of the four participating countries expressed their concern about the slowdown of the integration processes and affirmed their determination to make a breakthrough in integrating the former Soviet states by relying on the following factors¹:

first, the division of labor, formerly used in the USSR, has changed little since the breakdown;

second, the technological interdependence of enterprises, which were built according to common engineering standards and given similar training to engineers;

third, various nations lived throughout the union for a long time, leaving behind traces of relations due to the plural population, mixed marriages, common history and culture, the absence of a language barrier, an advantage of the free movement of people, etc.;

fourth, few conflicts between nations and denominations (i.e. between the two dominant religions: Eastern Orthodoxy and Islam); and

fifth, the attractiveness of the common economic space as an investment object.

The pace at which integration within the common economic space is possible depends on geopolitical factors as well. The following is a review of the motives behind Russia, Ukraine, Kazakhstan and Belarus, which are the major initiators of establishing alliances that will unite the CIS countries.

The Russian Federation. Russia is a primary party of the common economic space initiative within the CIS. It occupies over three quarters of the CIS territory and accounts for more than two thirds of GDP. About half of the population of the commonwealth lives in Russia.

An analysis of Russia's geopolitical and economic objectives shows that the CES member countries serve its strategic interests.

- **Belarus** is a stable and reliable transit corridor for exporting Russian oil and gas products to Western Europe.

- Russia is pursuing an expansion policy on the fuel market in **Ukraine**. In doing so, it is suppressing any of Ukraine's attempts to achieve an agreement with the West regarding the operation of the Odessa-Brody pipeline because this goes against Russia's strategic interests.

- **Kazakhstan** is regarded as a guarantor of security of Russia's southern frontiers. Oil, as well as Russia's aspiration to retain its domination in the Caspian, and control over the major transport routes and pipelines are the key factors determining Russia's policy.

The CIS area is important to Russia's economic interest, since the CIS is still the only outlet for many Russian goods. Forming economic alliances within the CIS will also strengthen Russia's influence on international politics and economy along with such world powers as the USA, the EU and China.

Ukraine has a different position regarding the coalitions within the CIS. Since the dissolution of the USSR and up to the present day, Ukraine's foreign policy has been anchored by the confrontation between Russia and the West.

- Russia is Ukraine's principal partner in import and export transactions. Moreover, Russia is the main supplier of low-priced fuels. For these reasons Ukrainian large industrial lobbyists support Russia's initiatives.

- The European Union is considered as the gateway to NATO. However, the economic integration of Ukraine into the EU is proceeding very slowly, because Ukraine's economy is not competitive and the European Commission is deferring signing the agreement of Ukraine's associate membership to the EU.

Ukraine's membership in the European Union is a top priority when it comes to geopolitics. However, Ukraine does not have the capabilities for real cooperation with the EU. Therefore, an alliance with the CIS countries may be considered as a bridge towards European integration.

Ukraine's policy has not been well-defined and governmental authorities are changing their positions depending on the situation at hand with a view to solving questions of current interests. The degree of Ukraine's involvement with the integration process into the CES will depend on the trends in its internal policy.

On the whole, Ukraine's attitude toward participating in the CES depends on its relations with Russia. It is the opinion of some that the common economic space is a way to build the relationship between Ukraine and Russia.

¹ The CIS: 13 Years. Outcomes of the Economic Integration. The Magazine Panorama of the Commonwealth, No.12, 2004, the Russian Information Agency Novosti.

Ukraine's consent to join the CES is largely due to its desire for intensified cooperation with its former Soviet partners. The creation of a free trade zone within the CIS without exceptions and limitations will allow the following Ukrainian goals to be achieved:

- the abolishment of Russian duties and VAT on oil and gas exports;
- sales of Russian fuels to Ukraine at Russian market prices;
- the creation of a common energy space and building up strategic energy reserves in the member countries;
- full access to the Russian market due to the removal of trade restrictions;
- the abolition of Russian antidumping duties on Ukrainian commodities as well as import quotas on metals and some other supply lines;
- an increase in trade between the member countries; and
- the free movement of labor resources within the free trade zone, the abolition of the registration procedure, etc.

In other words, the energy sector and Russian quotas on Ukrainian commodities are two focal points of the free trade zone.

Ukraine plans to join the free trade zone but refuses to participate in the customs union for the following reasons:

- adhering to the policy demanded by European integration;
- problems associated with joining the World Trade Organization may occur if the customs union within the CES is established; and
- the customs union calls for the establishment of a supranational regulatory body, which disagrees with the constitutional provision on Ukraine's sovereignty.

Kazakhstan. Russia is a top priority in Kazakhstan's foreign policy, mainly due to an extensive transportation network which makes Russia Kazakhstan's principal partner in the transshipment of Kazakhstani energy exports.

At the same time, striving for independence in the oil sector, penetration into the international market, the development of new technologies, and developments in the machine-building industry, the agricultural sector and small-scale businesses will propel regional economic integration.

Kazakhstan's interest in creating a common economic space is based on its specific economic needs. Kazakhstan's market is limited, whereas it has great transportation capabilities. The country needs additional markets for its investment and commodities in order to avoid obstacles to its economic development in the near future.

In expert opinions, the CES is of strategic importance for the future development of Kazakhstan. Its priorities in the cooperation with other CES countries are as follows.

Kazakhstan wishes to coordinate the terms and conditions for its joining the WTO. The CES members are interested in retaining mutual preferential treatment both for reasons of politics and economy. In practice, such treatment is a determining factor in the development of trade and economic relations between the CES countries.

Kazakhstan's membership in the CES will open the gate to new favorable markets, allowing new business possibilities to be created and the improvement of economic competitiveness in the international market.

Belarus. An analysis of Belarus' current foreign and internal policies reveals its apparent dependence on Russia.

- Russia is considered as an ally, who may help Belarus to recover its position in the West since diplomatic relations between Belarus and the European Union have deteriorated. Belarus borders NATO in the west. Therefore, it faces the necessity to establish positive diplomatic relations with Western European countries.

- Russia is the major supplier of energy resources to Belarus, supplying gas at Russian market prices.

A weak economic climate in Belarus has resulted in the disappointment of the population in its authorities and longing for alternative policies. In spite of organizational support and financial backing from the West, the opposition parties in Belarus have little political power. At the same time, the intent of the Belarusian president to stand for election for a third term in 2006 will only create tension in the country.

In view of this harsh political situation, aggravated by the isolation of Belarusian leaders from the international community, Belarus will likely anchor its foreign policy to Russia. Therefore, it is expected that Belarus will express interest in the integration. Cooperating with Russia within the Federation and with other CIS countries to form any alliances is one of the few alternatives for the country today.

The economic and geopolitical interests of CES countries are different in regards to both national levels and their respective alliances.

The economic and political expediency of a common economic space is apparent. However, its further development is determined by the strategic geopolitical interests of the member countries, in particular it is dependent on Ukraine's position in many ways.

In spite of certain geopolitical clashes of interests between the CES countries and a short life of the alliance, the process of integration is quickly moving forward.

A number of institutional arrangements have been made, in particular the High-Level Group on the Common Economic Space has been established, which plays an important role in the negotiations on CES matters. To date, the Group has held 18 meetings. Certain progress has been made in the development of the regulatory and legal framework and principles of the CES.

♦ *The Concept of the Common Economic Space*

The Concept of the Common Economic Space was adopted on September 19, 2003. It sets forth arrangements for creating a common economic space that will unite Belarus, Kazakhstan, Russia and Ukraine in order to increase the economic cooperation between the countries.

The Concept details the provisions stated in the Agreement. However, the creation of a full-fledged common economic space requires signing a number of international treaties which will specify particular matters concerning the organization and functions of the CES bodies. According to experts, some 50-60 international agreements will need to be elaborated and signed for this purpose.

♦ *The Agreement on the Common Economic Space*

The Agreement on the Common Economic Space was prepared by authorized teams from Ukraine, Russia, Belarus and Kazakhstan and signed by the presidents of the four countries on September 19, 2003. The document states that the CES aims at creating conditions for the sustainable development of the respective economies and raising the standards of living in each member country.

The CES is defined as a "common economic space uniting the customs territories of member countries which apply economic regulating mechanisms based on uniform principles providing the free movement of goods, services, capital and labor resources within a common economic space, a single foreign policy and agreed tax, monetary and financial policies as required for assuring fair competition".²

The main objectives of the CES under the Agreement are as follows:

- trading and investment cooperation to ensure the sustainable development of the economies of the member countries;
- business promotion;
- increasing the economic potential in order to strengthen the competitiveness of the economies in international markets; and
- coordinating the terms and conditions for joining the WTO.³

The Agreement provides for "the establishment of uniform principles that will regulate natural monopolies in such sectors as rail transportation, trunk telecommunications, transportation of electrical power, oil and gas, etc."⁴ Under the draft Agreement, a Council of Heads of Member Countries will be set up to coordinate and control the organization and activity of the common economic space. Each member country will have one vote in the Council.

The draft Agreement stipulates the progressive creation of the common economic space, considering "the possibility of integrating on different levels and at different rates".⁵

♦ *The Movement of People and Currency Across the Borders of CES Countries*

At their 18th meeting in Minsk, the High-Level Group on the Common Economic Space finalized projects on the movement of people and currency across the borders of CES countries.

Citizens of the member countries will be allowed to carry up to three thousand US dollars across frontiers and stay in a foreign country without registering for up to 90 days.

A relevant agreement will be signed in January 2005 and will come into effect on February 1, 2005.

The Group is now studying the documents that will regulate the movement of people across the frontiers of the four countries, registration procedures, duration of stay and labor movement within the CES.

The Group is also considering unifying the terms of vehicle insurance and the expediency of acceding to the

Green Card Convention on the part of Russia and Kazakhstan (Belarus and Ukraine are already members of this Convention). Being members of the Green Card Convention allows people to freely drive through Russia, Kazakhstan, Belarus, Ukraine and other countries that have joined the Convention.

♦ *The Practice of Charging VAT in the Country of Destination*

At their 18th meeting, the Group made a decision to adopt the practice of charging VAT in the country of destination during mutual trade between CES countries beginning on January 1, 2005.

CES member countries have prepared 29 top priority international legal documents aimed at creating a free trade zone. In 2005, the four countries will start the negotiations on the entire package comprising some 90 documents that will lay the foundation for the alliance.

Although certain progress has been achieved in creating the common economic space, several restraining factors exist.

♦ *The Fuel and Energy Sector*

- No joint development of the fuel and energy balance (except between Russia and Belarus).
- No integrated information system for the energy resource market.
- No agreed policy governing the transit of oil, oil products and natural gas via long-distance pipelines owned by member countries.

♦ *Finance*

- High dollarization of mutual settlements, hence a low share of the national currencies. About 90% of transactions are conducted in US dollars whereas the portion of national currencies does not exceed 5-10%. The lack of a common exchange market in the commonwealth and interconvertibility of their national currencies are the major reasons why banks and enterprises in the CES do not use national currencies for mutual settlements;

- Low capacity of financial markets. The total turnover in the futures market in 2001-2002 reached some 700 million dollars, which is 200 times less than the turnover in the countries of the European Union. When considering the transactions turnover on all exchanges in CES countries, Russia accounts for over 80%, Kazakhstan 17% and Belarus 2%. However, the Russian equity market is still insignificant according to the world criteria.

Introducing a common currency in the CES is essential for reducing its dependence on the US and EU economies. Provided that the dollar or euro remain as the common supranational equivalent, any increase or decrease in the bank rate in the European zone or USA will affect the economies of the CES. Yet, these processes will not always conform to the domestic economic tendencies and motivations within the Eurasian area.

The main factors restraining the process of introducing a common currency within the CES are as follows:

- the instability of the national currencies and imperfection of the system of the current exchange rate quotation;

² The Agreement on the Common Economic Space of September 19, 2003, Article 1.

³ Idem.

⁴ Idem.

⁵ Idem.

- poor coordination of the exchange regulation and financial legislation, and lack of the uniform procedures for foreign exchange transactions and securities trading.

♦ **Investment**

The European Bank for Reconstruction and Development regards Kazakhstan as having the most favorable investment climate among the CIS countries. According to Standard & Poor's rating in 2001-2002, Kazakhstan ranked 81 in the world regarding the attractiveness of its investment climate, while Russia came in 95, Ukraine 115, and Belarus 129.

The investment cooperation within the CES faces the following problems:

- a low level of investment flows. Annual investment by the CES countries in their respective economies amounts to less than 1.5% of the total foreign investment;

- all investment projects are currently bilateral. Now, Russia is the only real investor in the economies of CES countries. In recent years, Russia has invested over 584 million dollars in the Belarusian economy (or about 90% of all Russian investment) and about 5 million dollars in Kazakhstan's economy. Investments made by other CES countries in the Russian economy (a mere 15% of the total investment) had had practically no effect on Russia's economic development;

- highly specialized investment cooperation is mainly done in the following areas: transportation of energy resources for export; joint mining, production and deliveries of raw materials and some products; acquisition of shares of enterprises in CIS countries, the production of which interests Russia; and privatization of entities in CIS countries.

♦ **Joint Study of Barriers to Membership in the World Trade Organization**

At present, the economic cooperation within the CES is characterized by the following:

- real preferences exist in the trade and economic relations of CES countries that are not applicable to third party countries. Of the preferences, duty-free trade under exemptions based on bilateral agreements and the lower prices of raw fuel commodities, especially oil and natural gas, are the most beneficial compared to trade with non-member countries;

- abandoning the preferential trade treatment within the CES may result in a decrease of the trade turnover and a reduction of exports from Russia by approximately 30%, and from Kazakhstan, Belarus and Ukraine by about 50%, since the prices of finished products from foreign and CIS countries will be similar. This will result in the preference of consumers and importing companies for goods of higher quality and better technology from more developed countries.

Since Russia is in the lead, the terms of its accession to the WTO will be used as the basis for other CES countries. CES member countries have already agreed that the terms which Russia will receive as the most powerful country in the alliance will be the most favorable for them.

♦ **Science and Technology**

The integration of innovation has been underdeveloped in the CES. To date, there are about 70 scientific and technological parks in Russia; 2 scientific and technological parks and 8 small business incubators in Belarus, which render assistance to small industrial enterprises involving innovation projects; about 15 research centers in Ukraine; and 2 innovation funds and 3 technological parks under creation in Kazakhstan. Meanwhile, there is lack of interaction between them, and joint projects have not been implemented.

Lack of collaboration between innovation centers and research laboratories in CES countries thwarts progress of the innovation sector both in the community as a whole and in individual member countries.



An analysis of the current political situation in Ukraine shows its foreign policy will remain oriented towards the West, thus hampering the progress of the integration of CES countries.

It is evident that the Eurasian Economic Community is becoming a driving force for the integration of the former Soviet countries. And, other alliances, such as the Central Asian Cooperation Organization, the GUUAM Group (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova), CES and the Union of Russia and Belarus, gravitating towards this nucleus are expected to grow into a larger alliance—the Eurasian Union.

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Prerequisites for Kazakhstan's Entrance into WTO and Negotiations

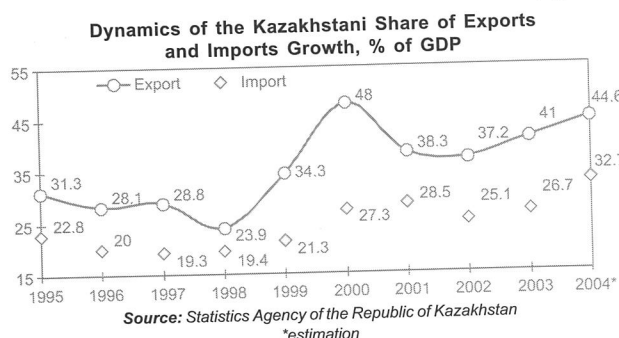
Gulnar SMAILOVA

Expert from the World Economy and Politics Institute, Foundation of the First President of the RK

Presently, there are 148 countries in WTO, or 75% of the total number of countries in the world, 135 of which are trade partners with Kazakhstan [1]. This is why Kazakhstan will and must settle its trade relations with those countries under acceptable and favorable terms and conditions. Any of the countries in the WTO may initiate an antidumping trial against goods exported by Kazakhstan at any time. In fact, Kazakhstan has undergone such trials initiated and the relative sanctions imposed by the USA, the EU, India, Mexico, Brazil, Columbia and Venezuela against the Kazakhstani steel, nonferrous industry products, ferrosilicium, ferrochromium, titanium sponge, highly-enriched uranium, etc. several times.

Kazakhstan should endeavor to make efficient use of the source of its economic growth – the introduction of finished goods and services into foreign markets at its maximum scale. This process requires forming mechanisms for realizing an effective and accountable foreign trade policy based on the principles, terms and rules that are observed by the world community in contemporary foreign trade. The mechanisms and rules established by the WTO constitute the only main instrument for implementing ideas and principles of globalization and liberalization of the world trade and the related system of economic relations.

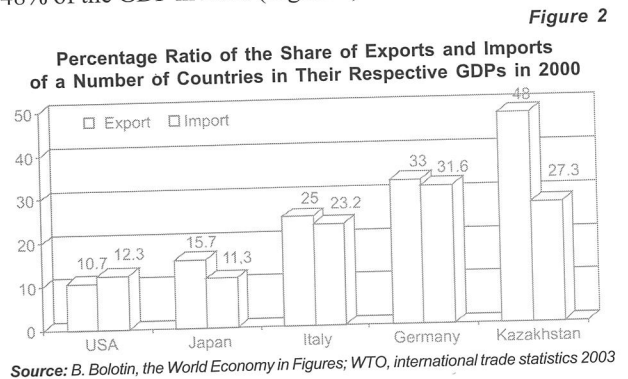
By knowing some statistical key figures it is possible to provide insight into the growing significance of the foreign economic activity of Kazakhstan. Figure 1 below gives the specific values of Kazakhstani imports and exports calculated in percentage terms of the gross domestic product for the period of 1995-2003.



As is evident from the Figure, Kazakhstan now handles a lot more exports and imports compared to past years. The Kazakhstani share of exports and imports in the total

volume of GDP increased by more than 1.5 times in 1996-2000. The share of exports had decreased since 2000, while imports remained practically the same. The share of exports has been increasing since 2003. The proportion of exports and imports in the GDP has become the most important indicator of Kazakhstan's economic growth under the long-term trend of the growing international trade and the instability of this process.

Moreover, taking into account the share of exports and imports by some countries in the volume of their GDP, the USA with its large territory and variety of available resources is less dependent on international trade than other highly-developed countries. This means that international trade is of greater importance for other countries, especially for Kazakhstan, where exports accounted for 48% of the GDP in 2000 (Figure 2).



Therefore, Kazakhstan, with its small domestic market and need to access the expanding world market, will be free from obstacles and problems when strengthening its positions in the world economic system by entering the WTO. The need for Kazakhstan to enter the WTO can also be explained by structural transformations in its economy. These changes concern the development of industries that produce research intensive and added value finished products as well as a high and medium processability index. The increase in production of such products can be sustained only if Kazakhstan approaches the world market, which is sure to eliminate the "narrowness" of the domestic market and limitedness of domestic demand.

Participation in the WTO will provide Kazakhstan with access to the unified international legal community which, in turn, provides all exporters and importers with a stable and predictable operational environment. Kazakhstan may count on being entitled to participate in working out rules

regulating world trade, taking into account its national interests. In addition, it will be possible to have access to current information on foreign economic policy and the intentions of governments of the countries participating in the WTO, which will enable the country to develop its more effective trade and economic policy.

Kazakhstan began the process of entering the WTO on January 26, 1996 when it filed an official application with the WTO Secretariat. In February 1996, the WTO O-member status was assigned to Kazakhstan. At the same time, a Working Group for Kazakhstan's entrance into the WTO was formed. Presently, it comprises 37 countries which are major trade partners of Kazakhstan (the USA, the EU, Canada, Japan, Australia, Switzerland, China and the Republic of Korea, just to name few) [2].

In order to coordinate the process of entering the WTO, the Interdepartmental Commission for WTO Issues was established in 1996 under Government Resolution. It has been reorganized into the Interdepartmental Commission for Customs and Tariffs Policy and Participation in International Economic Organizations.

In July 1996, Kazakhstan prepared and submitted a memorandum on the foreign trade regime to the members of the Working Group. The initial stage of the process of entering the WTO is familiarizing the WTO participating countries with Kazakhstan's foreign trade regime and its correspondence to WTO agreements. During this time, the WTO Secretariat was presented a lot of materials concerning various spheres of the Kazakhstani economy: practices of price regulation, taxation system, grants in certain economic sectors, foreign investment regime, import customs tariffs, protective measures by domestic producers, import licensing, export regulation, standardization and certification systems, foreign exchange transactions, plans for drafting work, etc. All these items were discussed at the first meetings of the Working Groups and WTO participating countries.

The Working Group for Kazakhstan's entrance into the WTO held seven meetings from 1996 to November 2004 (March, October 1997; October 1998; July 2001, December 2002, March 2004, October 2004). An informal meeting in July 2003 and 10 rounds of bilateral negotiations were also held.

Bilateral and multilateral negotiations are conducted within the framework of the process for Kazakhstan's entrance into the WTO **according to four main directions:**

1. Kazakhstan's market access conditions to be provided for foreign goods;
2. Kazakhstan's market access conditions to be provided for foreign services;
3. Agribusiness;
4. System issues.

The negotiations on the Kazakhstan's market access conditions to be provided for foreign goods include determining and coordinating with the Working Group participating countries the maximal levels of binding import customs duties that can be imposed after Kazakhstan has entered the WTO.

Further, a reduction of customs duties, which the Working Group countries are insisting on, may produce a negative effect on certain industrial sectors and agribusiness:

- agribusiness: meat food and dairy products (butter, cheese, wursts, canned goods), vegetable oil, confectionery, canned vegetables, fruit juices, etc.;

- industrial sector: textiles, garments, certain types of construction materials, metal products, furniture, etc.

At the same time, similar imported products accounted for 40-50% in the domestic market.

Negotiations on the Kazakhstan's market access conditions to be provided for foreign services are conducted in order to coordinate Kazakhstan's market access conditions for foreign service providers. Kazakhstan has been improving the list of its specific services obligations taking into account the entered engagements with WTO participating countries, special written comments of the Working Group countries, service sector development programs and changes in the Kazakhstani services sector legislation.

In 2003, growth rates of commercial services in nominal prices totaled 13% (\$1.8 trillion). Since the services market is of great interest to WTO countries, they demand to reduce the limitations on accessing this market.

Negotiations on agribusiness, besides the aspect concerning tariffs, include discussion on the scale of Government support of the agribusiness and amounts of export grants.

Kazakhstan has been actively conducting negotiations on an adequate tariff protection, national support measures to be taken and export grants in agribusiness, taking into account that the agribusiness is the first priority sector upon entering the WTO.

In addition, Kazakhstan wishes to be provided with a competitive environment equal to that provided for other countries. It should be pointed out that the extent of financial support for the national agribusiness is extremely insufficient compared to highly-developed countries. For instance, the national support provided for agribusiness in the USA totals 44% of the agribusiness gross output, in the EU – 88%.

Negotiations on system issues are carried out by the Working Group with the participation of all interested WTO countries in order to check whether the Kazakhstani foreign trade regime and legislation comply with the key WTO trade agreements.

In the course of multilateral negotiations, the following issues concerning the country's economic and trade policies have been coordinated: rules and practices of price regulation, state property and privatization, taxation system and taxation of imported goods, grants provided in particular economy sectors such as agribusiness, foreign investment regime, foreign exchange payment system, import customs tariff including any existing tariff preferences, customs duties, measures to protect domestic producers (e.g. antidumping and compensation measures), import licensing, export regulation, national trade companies, standardization and certification of imported goods, sanitary and phytosanitary measures, protection of the exclusive rights, etc.

In addition, issues on the mechanism of development and implementation of policy influencing the trade of goods and services have been discussed and coordinated.

Presently, the multilateral negotiations are based on the Factual Resume on Kazakhstan's entrance into the WTO with summarized data on the national foreign trade regime, which will be transformed in the future into the draft of the Working Group Report, the resulting document, containing particular conditions of Kazakhstan's participation in the WTO [3].

The main issues in the bilateral negotiations were those on providing Kazakhstan with transition periods for joining WTO Agreements on sanitary and phytosanitary measures, trade aspects of the exclusive rights, investment measures connected with trade, grants, compensation measures and agribusiness.

In the course of the negotiations, particular attention was given to Kazakhstani legislation, its compliance with the provisions of WTO agreements, in particular, in the sphere of funding the industry sector, including export grants, standardization and certification, unification of standards and requirements for the certification of goods.

The main issues under discussion are:

(1) Regulating agribusiness and the extent of national support, in particular, abolition of export grants for the agribusiness. Since Kazakhstan has no outlet to the sea, Kazakhstani farmers have unequal conditions in the world market due to the cost of shipping.

(2) Obligations for providing foreign companies with simplified access to the Kazakhstani market. Kazakhstan is interested in maintaining the rates of customs tariffs at the acceptable level. According to the Ministry of Industry and Trade, the average tariff in Kazakhstan totals 9.7%, 11% in Russia and 10% in the WTO. Moreover, 91% of the total imports are taxable at a rate of 5-15% and only one third of imported goods is taxable at a rate of 20-25% [4].

As a result of the work that has been carried out for eight years on Kazakhstan's entrance into WTO, Kazakhstan's future participation in the WTO will most likely be negotiated. Kazakhstani proposals on the provision of goods and services with access to the market, packaging of agribusiness documents, technical obstacles to trade, sanitary and phytosanitary measures, exclusive rights, trade aspects, etc. have been discussed. WTO countries have made their position clear on Kazakhstan's entrance into the WTO. They want more liberalization of trade.

It is planned that Kazakhstan will enter the WTO by the end of 2005. One of the main topics discussed at the last meeting of the Working Group in Geneva in November 2004 was the Factual Resume. Over 40 WTO participating countries and O-members took part in the meeting, including the United States, the European Union, Canada, Australia, Switzerland, China, Japan, the Republic of Korea and other WTO countries which appreciated efforts made by the Government of Kazakhstan to unify the national legislation with the provisions of WTO agreements and to liberalize the key economic sectors.

The Working Group meeting resulted in a resolution on the preparation of its first draft report, which estab-

lishes Kazakhstan's obligations in the sphere of its foreign trade policy, including the regulation on export and import of goods and services, technical obstacles to trade, sanitary and phytosanitary measures and exclusive rights protection.

Thus, Kazakhstani negotiators have succeeded in the process of Kazakhstan's entrance into WTO by transforming the negotiations into a considerably higher level.

The final objective of any country entering the WTO is to obtain certain advantages. Kazakhstan aims to obtain the following:

- ◆ Besides of the fact that Kazakhstan will be considered a country with an open market economy integrated into the world economy with structures assisting the development of the Kazakhstani economy, the state will automatically have the most-favored-nation treatment in its relations with all WTO members;

- ◆ Kazakhstan will obtain additional advantageous transit routes for exporting domestic production. This is especially important for the development of Kazakhstan's foreign commerce connected with the domestic production of the processing industry;

- ◆ As for the near and medium term outlook, Kazakhstan's entrance into the WTO is important in respect to attracting investment primarily into the domestic processing industry and the development of high-tech industries;

- ◆ The WTO regime for settling trade disputes, especially in the course of antidumping trials with respect to goods exported from Kazakhstan, is sure to be of great importance for Kazakhstan. This regime will allow settling trade and political disputes under WTO's just procedures;

- ◆ After entering the WTO, Kazakhstan can count on being entitled to participate in working out the rules that regulate world trade, taking into account its national interests;

- ◆ In addition, it will be possible to have access to current information on foreign economic policy and intentions of the governments of WTO participating countries, which will enable Kazakhstan to develop a more effective trade and economic policy;

- ◆ The creation of conditions to improve the quality and marketability of domestic production by using advanced technology, increasing the number of goods, services and volume of investment in the domestic market as well as by implementing international standards for quality;

- ◆ As a result of the increase in imports, Kazakhstani consumers will have access to a broad range of goods to be sold at lower prices.

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