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UPHEAVEL ALONG THE SILK ROUTE
THE DYNAMICS OF ECONOMIC TRANSITION IN CENTRAL ASIA

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UPHEAVAL ALONG THE SILK ROUTE

The Dynamics of Economic Transition in Central Asia

ABSTRACT

This paper discusses, in a comparative manner, the dynamics of economic transition in the Central Asian Republics of the Former Soviet Union (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), since their independence. The collapse of the Soviet Union in 1991, the reform policies that were implemented and the new external market environment, are seen as important factors to explain the dramatic economic crisis that is still continuing. The paper makes a plea to recognize the diversity and complexity of the economic transition in Central Asia and shows the necessity for a speedy economic recovery, in view of possible serious conflicts that can emerge in and between the countries that are situated along the old 'silk route'.

INTRODUCTION

This paper analyses the dynamics of economic transition (from a command to a market economy) in the five Central Asian Republics (CARs) Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, during the first half of the 1990s. These newly independent states have only recently returned on the world map after having been submerged for 70 years in the USSR, as the 'Islamic states' of the south. Situated along the ancient silk route that connected the West with the East (Wild, 1992), they are passing through a period of political, economic and social upheaval which is partly comparable with Central Eastern Europe and Russia, but moreover has its own peculiarities that makes it worthwhile to look carefully to this -relatively unknown- region of the FSU.

At least three major factors of change are to be considered in order to understand the dynamics (or its absence) of this process, although it will be nearly impossible to indicate how these factors have influenced the dramatic economic depression in the CARs during the 1990s. Firstly, the collapse of the Soviet Union in late 1991 had a dramatic impact on the Central Asian region, in which the degree of vertical integration within the inter-republican division of labour and the presence of sometimes abundant natural resources explain at least part of the macro-economics of contraction and crisis in the CARs. Secondly, the policies implemented to transform the command economies of the CARs into market economies, are rather complex and not at all linear nor straightforward. The pace of these reforms is largely gradual in comparison with the Russian Federation, although Kyrgyzstan and Kazakhstan are generally seen as having advanced faster on the reform path than the other supposedly non-reformers. Although this paper will concentrate on 'the economics of transition'[1], it is well understood that politics are largely in command. Nevertheless, the success (or failure) of economic reform, translated into economic development, will certainly influence the political developments in Central Asia and beyond. It should not be forgotten that social and ethnic conflicts, of which some have emerged in the early 1990s, can easily be (re)ignited, with the possibility that a major regional conflict emerges. Thirdly, after becoming independent countries, going through a 'learning by doing' process that accompanies the transitional road to a market economy, harsh reality dictates that they are low or at most lower-middle income countries, which have to compete in an increasingly more dynamic and often exclusionary world market, while having often not more to offer than many developing countries, namely agricultural and mineral raw materials. Within the limited scope of this paper this broad problem for the 'late-late comers' which the CARs indeed are will not be explored, but its significance in order to understand the economic performance is not be underestimated.

THE SOVIET LEGACY IN CENTRAL ASIA

As part of the Soviet legacy, the CARs were relatively isolated and mostly not considered at any degree of importance, in spite of the rich cultural heritage of these ancient societies that established themselves along the shores of the two great rivers Amu Darya and Syr Darya, in the fertile Fergana valley near the Tien Shan and Pamir mountain ranges, or the endless steppes around the Lake Balkhash. Why are we now more aware of their existence and relevance? Firstly, news is being disseminated of environmental disasters that threaten the region, such as the drying up of the Aral Sea and the contamination caused by the nuclear test-area of Semipalatinsk.[2] Secondly, incidental but severe ethnic conflicts emerged, such as the Uzbek-Kyrgyz clashes in the border town of Osh, situated in the densely inhabited Fergana Valley, and the mass emigration of particularly Russian and Germans that took place after the eruption of radical nationalist tendencies in the early 1990s (Statkom SNG, 1995).[3] Thirdly, the continuing civil war in Tajikistan draws our attention, with its linkages to the Afghanistan conflict and the danger it might undermine overall stability of the Central Asian region (CPSSb, 1996).

Returning to the first of the three externally and domestically determined factors which were identified in order to understand the current economic development of the CARs, the Soviet legacy defined a substantial part of their current external market environment and dependency from other CIS republics. For most of the CARs, inclusion in the Russian orbit took place during the 1860s onwards (Spoor, 1993), when Turkistan, with the Emirate of Buchara and the Khanates of Khiva and Kokand, was invaded by Tsarist troops. After 1924, new borders were drawn and the current republics received the status of *SSSR* (Soviet Republic) or initially of *ASSR* (Soviet Autonomous Region). The region itself -actually excluding Kazakhstan- became known in Russian as *Srednaia Aziia* (Middle Asia). During the Soviet era, the CARs benefited structurally from the All-Union Budget transfers that provided investment resources for agricultural, industrial and mining infrastructure or social sector institutions. Nevertheless, the development model of the CARs within the Soviet Union, reflected the increasingly one-sided inter-republican division of labour, in which countries such as Uzbekistan, Turkmenistan and Tajikistan specialized in cotton, known as the 'white gold'; Kyrgyzstan emerged as one of Soviet Union's main wool producers, and a supplier of uranium, gold and mercury; Kazakhstan became a bulk grain producer, with the expanded areas of cultivated land as a result of the virgin lands campaign of Khrushchev, while simultaneously developing oil and gas production, just like Turkmenistan. Unfortunately, the above noted inter-republican division of labour also created dependency on mono-cultures, while the consequences of ruthless exploitation of natural resources with a general disregard of the environment remains a major long-term problem for public health and socio-economic sustainibility.[4] Furthermore, most of the CARs (with the exception of Kazakhstan) imported more and more food, while also agricultural and industrial inputs came from elsewhere. Most of the 'exported' raw materials or primary agricultural products went to other republics of the USSR without any form of processing, and relatively little local processing capacity was built (agro-industry, refineries, petrochemical plants).[5] Nevertheless, some industry, in part because the decentralization Stalin propagated during the second World War, received a 'central' push in the relatively far-away regions of Central Asia, in particular those related to the Military-Industrial Complex. However, this industrialization process included a total disrespect for distances (and the inherent transport costs):

> Heavily subsidized freight charges and administrative decisions in Moscow enabled the final stages of production and assembly to be located in the Central Asian Republics.... It became normal for raw materials and components to be transported vast distances across the Union by rail at prices representing a fraction of the true cost (Henley & Assaf, 1995: 236).

Because of the structural dependency that grew between the economies of the CARs and the 'centre', the disintegration of the Soviet Union had a dramatic impact. Previous inter-republican trade had more the character of planned transfers at the level of a central ministry or a *kombinat* (industrial complex), and markets (if one can speak of markets in this context) were purely captive ones. After 1991, the CARs were forced to pay much more (sometimes at world market price level) for their imports, while furthermore traditional export markets for cotton, wool, gas, oil and meat could not immediately be replaced by 'hard currency' market outlets. Hard currency payments by CIS countries are often delayed or even refused. The external shock caused by the disintegration of the FSU, particularly affected those CARs that were closely integrated in the Soviet economy, in particular through their industrial sectors (such as Kazakhstan and Kyrgyzstan), while those who depended largely on agricultural and mineral 'exports' have been able to cushion some of the impact of the shock. This is an important observation to take into account before discussing any economic reform policies and their possible differential impact. With this in mind in the next section a comparative analysis of the economic development in the CARs is presented, discussing the policy induced and externally determined macro and sectoral impact on the economies of the CARs, followed by a brief overview of the attempts to restructure financial and product markets (and their linkage to the new external environment). In the concluding section, which can only be of a preliminary character, two of the three main factors are briefly revisited in the light of the evidence presented, emphasizing the urgent need for recovery and the danger that a very different 'upheaval along the silk road' might occur in a not so distant future.

THE MACRO IMPACT OF CHANGE: CONTRACTION AND CRISIS

All FSU republics suffered from severe economic contraction in the past years. Central Asia is no exception to this rule, as sustained negative growth can be observed in the CARs since 1991 (Table 1), sometimes even starting earlier. In Kazakhstan and Kyrgyzstan, by the end of 1995, GDP had decreased to around 46 percent of the 1990 level. In Tajikistan, suffering from the impact of civil war, it even declined to 36 percent. In Turkmenistan (in spite of the rich oil and gas reserves) GDP dropped to 64 percent. Finally, in Uzbekistan, which is the largest economy in terms of population, it had declined to 82 percent, being relatively the 'best' performing economy.

Table 1: GDP Growth in Central Asian Republics (1990-1995)

(% Change)	1990	1991	1992	1993	1994	1995
Kazakhstan	-0.8	-11.8	-13.0	-12.9	-25.0	-8.9
Kyrgyzstan	3.2	-4.2	-16.4	-16.4	-26.0	-6.2
Tajikistan	-1.6[a]	-8.7[a]	-31.0	-17.3[b]	-21.3[b]	-12.4
Turkmenistan	1.8[a]	-4.7[a]	-11.0	-6.0	-15.0[c]	-6.0[*]
Uzbekistan	1.6	-0.5	-11.1	-2.4	-4.0[d]	-1.0

Sources:

EIU (1995); Zhukov (1995); World Bank (1994); Spoor (1995); Statkom SNG (1995,1996); Author's Calculations.

Notes:

[*] January-May 1995 estimate; Other 1995 data come from StatKom (1996) that was published in January 1996, most likely to be taken as estimates as well, but for the whole of 1995.

[a] As estimates for GDP are lacking, the NMP growth is used.

[b] EIU (1995) estimated NMP growth at -27.6 and -20.0 percent for 1993 and 1994 (suggesting a somewhat greater drop in GDP). The 1994 figure taken from StatKom SNG (1995).

[c] EIU (1995) estimated NMP growth in 1994 to be positive (!) at 1.7 percent. The different GDP figure of the CIS Statistical Committee is used here. Differences cannot be explained but the EIU suggests that the original IMF estimate cannot be justified.

[d] EIU (1995) gives -2.6 percent for 1994. Statkom SNG (1995): -3.5 percent, World Bank (1995): -4.5 percent.

In comparison with the CIS countries, which in total contracted to only 58 percent, with the Russian Federation at 62 percent of the 1990 GDP level, the Central Asian performance was widely fluctuating around the average (StatKom SNG, 1996:11). Furthermore, taking into account the substantial outmigration of skilled labour from Kazakhstan and Kyrgyzstan, the drought that hit the region in 1991, and the civil war that rages in Tajikistan, the economic situation is without any doubt precarious. Although according to the latest reports the bottom-line of decline was reached in Kazakhstan and Kyrgyzstan, and the contraction in the Uzbekistan economy has been contained, the perspectives still are rather grim (Table 1). Undoubtedly, a continued economic crisis will influence negatively the potentially explosive social-political situation in the region, and not surprisingly rapid economic recovery remains high on the agenda of the leaders of the CARs. A large part of the population in the CARs is rural (such as in Uzbekistan and Kyrgyzstan where the share is around 63 percent), and agricultural production represents an important share of GDP, with sub-sectors such as cotton (Uzbekistan, Turkmenistan and Tajikistan), wheat (Kazakhstan) and mutton & wool (Kyrgyzstan). Nevertheless, the share of industry in GDP is still substantial, mainly because of the extraction of natural resources, such as gas (Uzbekistan), oil (Kazakhstan), coal (Kyrgyzstan), aluminium (Tajikistan), tungsten, gold, and the production of thermal energy. A comparison of NMP data for the last year before the collapse of the Soviet Union shows that Kazakhstan had the strongest industrial sector of Central Asia, followed by Uzbekistan, with the other republics depending largely on agriculture and mineral resource exploitation.[6] A detailed investigation of the sectoral growth data for the agricultural and industrial sectors during the years 1991-1995 (Table 2 and 3) shows that the contraction in the industrial sector is more dramatic than for agriculture. The reasons behind this near collapse of industry (excluding at least in part the gas and oil exploration, although in volume these also contracted considerably), are various.

Table 2: Industrial Share in NMP/GDP Growth (1990-1995)

(% Change)	1990[a]	1991[a]	1992[a]	1993[a]	1994[a]	1995
Kazakhstan	-15.9	-13.8	-13.8	-14.8	-28.5	-7.9
Kyrgyzstan	7.1	6.6	-26.1	-25.3	-24.5	-12.5
Tajikistan	3.3	0.7	-24.2	-7.9	-30.8	-5.1
Turkmenistan	-12.0	4.1	-14.9	4.0	-25.0[b]	-6.0
Uzbekistan	23.6	0.1	-6.7	3.6	1.0[c]	0.2[c]

Sources: World Bank (1994); Zhukov (1995); EIU (1995); StatKom SNG (1996); Author's Own Calculations;

Notes:

[a] For consistency reasons, 1990-1991 is taken from World Bank (1994), while 1992-1994 is taken from Interfax-Statistical Committee (1995), as cited by Zhukov (1995). Both sources contradict in some cases, although trends are obviously similar. GDP data for 1995 comes from StatKom SNG (1996). To complicate the reading of data even more, it is not always clear if sectoral shares refer to GDP or to NMP.

[b] The dramatic decline in industrial output for 1994 must be related to the drop in gas production (to 60 percent of Soviet era levels, see: EIU, 1995). This is confirmed by Zhukov (1995).

[c] The positive industrial growth figure for 1994 is unlikely to be correct, as other reports suggested industrial contraction in that year. Zhukov (1995) has an estimated figure of -17.4 percent for January-May 1995. Therefore, the StatKom SNG (1996) data for the whole of 1995 might also be an overestimate.

Firstly, there was a intricate form of inter-republican industrial integration. The collapse of the Soviet Union and the disintegration of this form of industrial linkages affected all segments of the production and marketing chain. Secondly, inefficient and often outdated production processes could not compete with cheap final products that flooded the gradually opening markets of Central Asia, such as those coming from China. Thirdly, increasing shortages of energy, transport and skilled labour caused stagnation in existing industrial enterprises.

Privatization in industry has advanced more than in agriculture (in particular in Kazakhstan and Kyrgyzstan), through company buy-outs, massive voucher programmes, and also spontaneous *nomenklatura* privatization.[7] However, state owned or post-state owned (SOEs and PSOEs) and private industrial enterprises are generally in substantial difficulties. The breakdown of previously existing state supply and sales mechanisms is important as well as the inefficient and segmented financial, capital and output markets in which they have to function.[8]

There is clearly still a long way to go before the macro- and micro-economic environment is transformed in such a way to promote an industrial recovery in the CARs.[9] A further complication for the privatization of large-scale industrial enterprises was that they had a crucial role in the provisioning of social services during the Soviet era. A break-up of these enterprises or their possible bankrupsy would not only cause unemployment, but also disintegrate the social services and welfare functions of these industrial complexes, a prospect to which the Central Asian leadership is understandably not very attracted (*ibid.*:241).

The agricultural sector was less affected during the first half of the 1990s (with the exception of 1995), although grain production in Kazakhstan showed a very negative trend, with a dramatic declines in production in 1991 and 1995.[10] This can be explained in the following way. Firstly, agricultural production such as cotton, grain, meat and wool formed a nationally integrated production process, depending only on certain external (extra-republican) inputs. Secondly, it seems from the limited data available that the Terms of Trade did not improve for most crops, as the costs of inputs (fertilizers and pesticides) went up much faster than output prices.

Table 3: Agricultural Share in NMP/GDP Growth (1990-1995)

(% Change)	1990[a]	1991[a]	1992[a]	1993[a]	1994[a]	1995
Kazakhstan	12.2[c]	-24.6	1.0[c]	-5.0	-17.0[c]	-21.0
Kyrgyzstan	3.0	-21.2	-5.0	-10.0	-15.0	-9.0
Tajikistan	-9.1	-9.9	-27.0	-4.0	-25.0	-28.0
Turkmenistan	7.2	-17.2	-9.0	16.0[b]	2.0	-10.0
Uzbekistan	7.0	-0.4	-6.0	1.0	-1.0	-3.0

Sources: World Bank (1994); Zhukov (1995); EIU (1995); StatKom SNG (1996);
Notes:

[a] For consistency reasons, 1990-1991 is taken from World Bank (1994), while 1992-1994 is taken from Interfax-Statistical Committee (1995), cited in Zhukov (1995). Both sources contradict in some cases, although trends are obviously similar. GDP data for 1995 was taken from StatKom SNG (1996). To complicate the reading of data even more, it is not always clear if sectoral shares refer to GDP or to NMP.

[b] In the case of Turkmenistan, this 16.0 percent growth is unlikely to be true as the share of agricultural in NMP was rapidly declining. For 1994, the positive growth rate would indicate a recovery in cotton; however, EIU (1995:46) states that in 1994 cotton output dropped by 3.5 percent.

[c] The positive growth rates can be largely explained by the bumper harvests of grain in those years (climate induced). EIU (1995) gives for 1992-94 the figures: 0.2; -9.8; and -21.2 percent.

However, the importance of newly demanded high value agricultural products (such as vegetables) grew, at least somewhat stabilizing agricultural incomes. Thirdly, specifically for the important cotton sector, the foreign exchange earned with hard currency exports, provided finance for the imports of spare parts, fertilizers and pesticides, which previously were transferred, or bought at administrative prices.

Land was 'privatized' in different ways, which makes it also difficult to assess what share of agricultural land is currently in private ownership or usufruct. Generally speaking, like during the Soviet era, more land is in private use than in the official statistics can be noted. An example of before was that members of collective farms or workers on state farms had a small family plot, which produced a substantial part of the household cash income. In the current post-1991 period additional land has been privatized in this manner.[11] An example is Uzbekistan that has redistributed in the form of leasehold 500.000 hectare of land or around 12 percent of total arable land during 1992, to satisfy the increasing private demand for land. Most of this land was fractionated into tiny pieces (EIU, 1993). There is a wide-spread misunderstanding that privatization in the agricultural sector has already been more or less completed in the CARs which are seen as reformers and absent in the non-reformers. Actually, most of land reform has taken the shape of paper changes, where state farms transformed into joint-stock companies or cooperatives, collectives into limited liability companies (*tovarichestva*) or into leasehold companies. Often the change meant nothing more than taking away the old name plate above the gate and hanging a new one there.[12] Why is there still relatively little land really privatized (although the governments of the CARs consider some of the above transformations as privatization)? There are a number of reasons. Firstly, there are few incentives to break away from the existing collective structures. New markets for inputs and outlets for agricultural production are emerging in a very slow and fragmented manner. Credit for private farmers is often not available, and the social infrastructure of education and public health is still related to the old parastatal or collective structures. Secondly, the rural *nomenklatura* tries to hold on to power, or even hopes to increase it. Whenever privatization of land is taking place representatives of the former party elites are trying to get the best and most of the land that is to be transferred into private hands. However, keeping the previous structures intact (albeit under another name) gives the *nomenklatura* better options to remain in social and political control of the rural areas (Spoor, 1995). Thirdly, the governments of the CARs genuinely fear, that a privatization process will lead to conflicts along ethnic lines, such as were witnessed in 1990 in Osh, where access to land was a major issue in the violent and bloody riots between Kyrgyz and Uzbeks (CPSS, 1996a). Equally so, there are future tensions to be expected in Kazakhstan, in particular between the Russian farming population in the Northern plains and the Kazakhs, and between other minorities themselves. Therefore, although leasing of land (often with rights of heritage, and long periods of leasehold) has been the most advanced step on the road to privatization, most land is still owned by the state. Redistribution of state-owned land to households in the form of small plots, answers to the popular demand that has recently emerged, but there is no concerted movement that is leading towards a wide-spread formation of economically viable private farms.[13]

ECONOMIC REFORMS: HARDENING THE 'BUDGET CONSTRAINT'

The collapse of the Soviet Union and the necessity for the newly independent states to restructure domestic and external market relations provided a clear impetus for a change in the existing financial and monetary structures in all of the CARs, while partly these are policy induced. Monetary relations that previously existed between the former Soviet republics were part and parcel of the Soviet planned economy system, while most of the extra-republican trade -via the centre- was performed in transferable Rubles within the CMEA-trading block, that passed away alongside with the Union. Money in the socialist system had primarily an accounting function for planning purposes rather than being an instrument for allocation of resources (or a signal that indicates shortage or surplus), as is usual in market economies. It meant that until May 1993 (when Kyrgyzstan broke away from the Ruble-zone) monetary developments in the Central Asian economies were highly influenced by the expansionist monetary policies of the Central Bank of the Russian Federation and the Ukraine. Inflation was therefore partly imported, as innumerable quantities of rubles entered the CARs, on the one hand continuing to subsidize state companies and national banks (EIU, 1993: 30-31), while on the other hand buying commodities and pushing up prices. Trade between the new CIS republics was accompanied by intra-republican enterprise arrears, in the absence of proper clearing procedures and contract enforcement (Henley and Assaf, 1995:237). At independence, the banking system was completely centralized, and neither the remaining republican monetary and banking institutions, nor the traditional role of money in a planned economy, were particularly suitable to induce a transition to a market economy, in which a great variety of banks, security funds, credit, and tax instruments is necessary to promote that markets of commodities and services are actually working in a competitive manner. One could -rather cynically- argue (again comparing for a moment with LDCs that were starting structural adjustment in the early 1980s), that the CARs had 'the wrong institutions in the wrong places', while their states were large, having awfully inefficient bureaucratic practices.

All CARs were soon confronted with substantial fiscal deficits, because of the sudden absence of budget transfers from the All-Union Budget, decreasing revenues from the state enterprise sector and the continuation of large subsidies. The latter were in reality bigger than shown in the budget, as an important share of subsidies to state enterprises was transferred via the centralized banking system. This is often referred to as finance for the 'soft budget sector', through which income was redistributed, while money lost its main function as an intermediary economic instrument, a phenomenon that was widespread in planned economies.[14] Following price-liberalization, the 'unlimited bidding for resources' (Yavlinski and Braguinsky, 1994) by SOEs and PSOEs, who kept their access to cheap credit, even led to 'cost-push' inflation (overriding the 'demand-pull' factor, based on the supposedly large cash-balances of the population). While this development was particularly noticeable in the Russian Federation, it is also present in the CARs, in particular in Turkmenistan and Uzbekistan where much of the state sector have largely been left untouched.[15]

Table 4: Central Asian Republics: Consumer Price Inflation (1990-1995)

(%)	1990	1991	1992	1993	1994	1995
Kazakhstan	4.2	90.9	1,513.0	1,571.0	2,381.4	60.3
Kyrgyzstan	3.0	88.0	906.0	1,209.0	279.3	31.9
Tajikistan	4.0	85.0	913.0	2,195.0	2,300.0	1,382.0[a]
Turkmenistan	4.6	88.0	831.0	3,102.0	1,608.0	..
Uzbekistan	7.3	106.0	598.0	851.0	816.7	93.7[b]

Source: EIU (1995); StatKom SNG (1996);
Notes:

[a] December 1994-November 1995
[b] December 1994-September 1995

Insufficient domestic control over monetary policies, the partial collapse of the trading system, the supply contraction, price reforms and the continuing huge subsidy transfers to production or consumption sectors, all contributed to the appearance of galloping inflation in the CARs during the post-1991 years. Inflation not only dramatically disrupted economic life, sometimes dollarizing economic transactions and making the local currency the least desired commodity (and therefore a 'hot potato'), but also -and more seriously- rapidly eroded the purchasing power of real wages and transfers. In Table 4 it is noticeable that inflation dropped substantially in Kazakhstan, Kyrgyzstan and Uzbekistan, because supply-demand adjustments and the implementation of budgetary and monetary reforms in these countries.

Banking reforms have progressed in Kyrgyzstan and Kazakhstan, although state influence is still large. However, some experiences of privatization of banks also have ended in clear disasters for customers or shareholders, as speculative motives and corruption, and the absence of a solid legal framework or control mechanisms, became dominant in the emerging money market. Legal frameworks, institutions, information systems and procedures, that exercise indirect control over private banks, are still underdeveloped, which caused these problems. Some positive changes are clearly present, but the financial infrastructure that is needed for the transition to a market economy is still rather weak, while concentrated in only particular niches of the market (Henley and Assaf, 1995). All CARs (except Tajikistan, who remained in a loose form of monetary union with Russia)[16], broke away from the Ruble-zone introducing national currencies. This began with Kyrgyzstan, which at the advise of the IMF and World Bank launched the *Som* in May 1993, followed by the others in November that year.[17] These new currencies have severely devaluated in nominal terms in the two years since their introduction, such as the Uzbek *Som* (from 8:1 to 36:1 USD), the Kazakh *Tenge* (4.7:1 to 57:1 USD) and the Turkmen *Manat* (1:1 to 1,500:1 USD). Only the Kyrgyz *Som* has stabilized during 1995 (at around 11:1 USD). In some cases, such as Uzbekistan, multiple exchange rates are still in existence, while in general the exchange rate devaluation was slower than current consumer price inflation, which means than since their introduction a process of real exchange rate depreciation took place, which worsened the export position of all the CARs.

Budgetary transfers from the centre were previously fundamental for the republican budgets.[18] Fiscal reforms have therefore been crucial in Kyrgyzstan, Kazakhstan and Uzbekistan, with the reduction of subsidies, the introduction of VAT and excise taxes and the restructuring of fiscal institutions. In the case of Uzbekistan even water pricing is being considered as a possibility for new tax revenues (while serving as a main incentive to reduce the spillage of water resources in agriculture), and in most countries prices for water and energy were raised. Generally, consumer prices of energy, water and public transport are still well below border (ie, world market) prices. This is understandable as the regimes want to avoid a major social shock while adapting (or liberalizing) these prices. However, this price gap is costly in terms of continuing subsidies that have to be financed from decreased tax revenues. Nonetheless, Turkmenistan, which behaves sometimes like the 'Kuwait of Central Asia', in a move that reminds me of Dutch disease symptoms, announced in 1992 to make energy and even water free of charge (EIU, 1993:53).[19]

REAL MARKETS AND THE WINDS OF CHANGE

One of the most important (policy and externally induced) transformations in the CARs is the restructuring of the domestic and external trade system, although unfortunately in some cases this is the field where the least transformation has been undertaken. One can indeed observe a gradual diminishing or even elimination of the domestic state order systems in which the planning authorities ordered parastatal industrial enterprises or farms to deliver certain quantities of commodities to the state, while the latter took care of inputs and raw materials. State procurement at administrative prices was of course an integral part of the planned economic system in all CARs, but in countries like Kyrgyzstan and Kazakhstan, by 1995 most of compulsory deliveries had been abolished, except in some crucial 'strategic commodities' such as grain. In Uzbekistan the share of important agricultural crops such as cotton that has to be sold to the state is gradually diminishing (by now between 60-70 percent of output). However, sectors such as coal, gold, oil and gas remained under state monopoly.

As Uzbekistan and Turkmenistan are pursuing a self-sufficiency of grain policy since the early 1990s, shifting somewhat from cotton to wheat, it is not surprising to note that state influence in the grain market is still substantial, as it is nearly seen as a 'public good' in which the state has to play a regulatory role in production and distribution.[20] In spite of the overall trend to gradually deregulate agricultural markets in Central Asia, in these two CARs state procurement of grain increased its relative share of output in 1993-1994. In Turkmenistan President Niyasov even promised free bread and flour for 1996 (EIU, 1995:41)! What is problematic for the development of domestic markets in the CARs, whether for agricultural or industrial products, is that parastatal procurement and distribution systems are disintegrating (such as in Kazakhstan and Kyrgyzstan, but also in Uzbekistan) while insufficient room is created for the development of private trade (Duncan, 1994). Windfall trade activities are prevailing in the absence of a proper legal framework (commercial laws, institutions that can enforce transactions, information systems and commercial credit) and a lack of capital for investment, while remaining mostly confined to the less risky urban (or even external) trade spheres.

External trade is transforming as new non-CIS markets are being explored and penetrated by the CARs.[21] Practically all trade before 1991 took place within the USSR, with the commodity produced in a CAR being transported or processed further in another more central part of the Soviet Union before possibly entering in foreign markets. Since independence there is a need to find alternative markets in order to earn hard currency, as even for imports from Russia and the Ukraine this is sometimes required. Nevertheless, traditional but economically rather inefficient barter agreements are still being implemented between governments. Between the CARs, however, hard currency payments for crucial commodities like oil, gas and electricity are also becoming *en vogue*, with at the moment Uzbekistan and Turkmenistan being the main exporters of energy, and Kazakhstan (in spite of its huge potential in this field), Kyrgyzstan and Tajikistan the importers (see Table 5). Although it is very difficult to make any comparison between the pre-and post-1991 period in terms of the volume and value of external (and previously intra-republican) trade, it is to be expected that with the drastic contraction in overall production of the CARs, the absence of transfers from the All-Union Budget or other forms of assistance from Moscow and the shortage of hard currency, imports as well as exports decreased. In some CARs trade reforms have been implemented, such as in Kazakhstan and Kyrgyzstan, where export licenses and quotas by 1994 had been reduced or even eliminated, although in some cases a sudden appearance of high tariff barriers can be observed. The grain trade for Kazakhstan and the cotton trade for Uzbekistan, in both cases dealing with commodities of strategic importance for the respective economies, have not been liberalized. Kazakhstan has only partially freed the market, but a commodity exchange is closely reviewing price developments (USDA, 1995). Most of cotton trade in Uzbekistan and Turkmenistan is still a state monopoly, but also in these countries a state-governed auctioning system was introduced in order to promote at least a beginning of competitive bidding and improved price formation.

Gradually an opening of trade between the CARs (after an initial extreme form of protectionism) has taken place. The Central Asian region is definitely trying to balance its trade relations between CIS and non-CIS, although geographically it is destined to remain within the Russian orbit. For the smaller states, such as Kyrgyzstan and Tajikistan it means that cheap Kazakh, Uzbek and Chinese consumer goods are flooding their domestic markets, choking to death the remaining local light industries. Some interesting phenomena can be observed while looking at the trade pattern and balance of the CARs (Table 5). From a near exclusive 'trade' (although it was more transfer) with other Soviet Republics, the share of trade with the CIS reduced to around 65.0 percent in 1994, with Russia still being the most important partner.[22] The share of intra-CAR trade in the overall trade volume is around 21.0 percent. Both trade with CIS and non-CIS countries for the whole of Central Asia is nearly balanced (like the overall accumulated trade balance), but this is only true for all individual CARs in relation to hard currency markets. In their trade with the CIS, however, Kazakhstan and Tajikistan show a deficit on their trade account, while Turkmenistan and Uzbekistan have a substantial surplus, differences which also are reflected in the overall trade accounts. Kazakhstan and Uzbekistan have agreed late 1993 to set up a customs union, which was joined in 1994 by Kyrgyzstan.

Table 5: External Trade Balance Central Asian Republics (1994)

(Millions of Current US Dollars)	Total Trade	CIS Trade Russia	CAR	Other	Total CIS	Total Non-CIS
Kazakhstan						
Exports	3,231	1,438	212	224	1,874	1,357
Imports	4,499	2,185	771	160	3,115	1,384
Trade Balance	(1,268)	(746)	(559)	64	(1,241)	(27)
Kyrgyzstan						
Exports	340	59	149	15	223	117
Imports	369	104	146	11	261	108
Trade Balance	(29)	(45)	3	4	(38)	9
Tajikistan						
Exports	413	45	40	8	93	320
Imports	899	143	431	6	581	318
Trade Balance	(486)	(99)	(391)	2	(488)	2
Turkmenistan						
Exports	2,010	45	548	1,002	1,594	416
Imports	894	112	134	314	559	335
Trade Balance	1,116	(67)	414	688	1,035	81
Uzbekistan						
Exports	3,044	893	958	228	2,078	966
Imports	2,479	834	423	86	1,343	1,136
Trade Balance	565	59	534	142	735	(170)

Source: StatKom SNG (1995);

Although border trade between the countries developed quite lively since then, most of the agreement on this Central Asian 'Common Economic Space' still has to be implemented and remains more letter than practice (Brown, 1994b). Kazakhstan is approaching Russia more closely, having signed in 1995 an initial agreement for a customs union with Russia and Belarus, while Turkmenistan does under no condition want to join the above mentioned customs union. It is hardly trading any more with Russia (the Ukraine currently being its main trading partner), and prefers to deal with individual CARs rather than joining the new trading block. It has recently applied for the status of 'neutral country' at the United Nations in order to emphasize its independent position.[23] Although the other Central Asian states have difficulties amongst themselves, their is increasing criticism on the President of Turkmenistan, not only for the 'personality cult' that has been created around him (carrying the title of *Turkmenbashi*, or leader of all Turkmen), but also because he is distancing himself from the rest of Central Asia, preferring close relations with Turkey and good neighbourship with Iran.[24] The economic and political relations between the CARs (or within the CIS for that matter) could remain somewhat tense in the near future as problems of arrears and non-compliance of contracts are increasing. Most importantly, however, conflicts may arise (sometimes mixed with ethnic sentiments) about the control of scarce resources, such as agricultural land and water, in particular in the Fergana valley, that runs through eastern Uzbekistan, northern Tajikistan and southern Kyrgyzstan. A large part of Central Asia's water is supplied by Kyrgyzstan and Tajikistan, while most is utilized by the agriculture of Turkmenistan and Uzbekistan (Spoor, 1993).

UPHEAVAL ALONG THE SILK ROUTE: SOME PRELIMINARY CONCLUSIONS

In this paper I have briefly reviewed some of the economic developments and structural transformations that take place in former Soviet Central Asia, in particular those induced by the radically changed external environment and the economic policies that are transforming the financial, monetary and trade structures of the CARs. Although generally Kyrgyzstan and Kazakhstan are considered as reformers, and Turkmenistan and Uzbekistan as non (or at most partial) reformers, reality is more complex, as the collapse of the Soviet Union has affected these economies quite differently, and all kinds of policy reforms are implemented, which cannot be captured within this simple dichotomy that is popular amongst international donors. If we analyze some crucial reform areas the picture is indeed less clear than mainstream thought suggests. In Table 6 the following areas, seen as fundamental in the transition to a market economy are being critically reviewed: deregulation and building a legal framework for a market economy; control of consumer price inflation; privatization of state assets; domestic and finally external market liberalization.

The variety of different reforms that have taken place, suggests a complex and not at all straightforward nor monolithic process. On the contrary, on the basis of the evidence presented in this paper it can be concluded that the Central Asian 'reform path' is not to be considered as a simplified blueprint towards a market economy which some have impolemented and others not. In Table 6 it can be noted that rather than a division between reformers and non-reformers, diversity exists at the policy level following the independence of the CARs in 1991. Furthermore, if one combines economic policies with the analysis of economic performance at macro- and sectoral level of the CARs, as we have done above, one also has to qualify any suggested simple relationship between policy and likely outcomes. Kyrgyzstan has possibly taken the lead on the reform path, having implemented the 'shock therapy' advice of donors to the letter. It also has been confronted with the deepest economic crisis of all the CARs.[25]

Table 6: Policy Reform Indicator Matrix for the CARs

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkme-nistan	Uzbekistan
(A)	4	4	2	1	3
(B)	3	3	1	3	3
(C)	3	3	2	1	2
(D)	3	3	3	1	1
(E)	3	3	1	1	2

Source: Author's Own Estimates

Notes:

(The Indicators are numbered from 1 (least reforms) to 5 (most reforms), and relate to the following crucial areas of transformation:

(A) Deregulation/Legal Framework Market Economy; (B) Control of Consumer Price Inflation; (C) Privatization; (D) Domestic Market Liberalization; (E) External Trade Liberalization;

Uzbekistan, who has mostly been seen as a non-reformer interestingly enough did best within the group of CARs in terms of containing the contraction and economic crisis. Only recently, during 1994-95 it embarked on a programme of financial restraint, while hardly reducing its strong state intervention. In the field of financial, monetary and trade reforms Uzbekistan does not score much worse than the reformers Kyrgyzstan and Kazakhstan, and -particularly because of its greater stability- has even done better in attracting Foreign Direct Investment (Spoor, 1995). This relative success is by now also appreciated by foreign donors, as a recent study on the CARs by UNIDO advisors shows (Henley and Assaf, 1995). Indeed policy recipes for the whole of Central Asia would certainly not do justice to the substantial structural differences between these economies. Any analysis of the economic performance of the CARs should integrate a thorough understanding of the precise way the CARs were individually integrated in the Soviet Union, the variety of reforms that have been implemented, and the future position the CARs are trying to obtain in external markets.

In conclusion, and returning to the intimate relationship between economic performance and socio-political stability, it cannot be ignored that time is very short. Therefore, the pressure for the leaderships to find short-cuts for economic recovery is increasing after nearly five years of dramatic economic crisis in the CARs. There is an immediate danger that Central Asia could become 'as strife-ridden as the former Soviet republics in the Trans-Caucasus' (EIU, 1995), if the economic situation does not improve soon. Therefore, renewed attention to Central Asia and a growing understanding and appreciation of the reform processes that are taking place is an absolute necessity in order to induce forms of international assistance, economic cooperation and in particular the badly needed Foreign Direct Investment that could improve the rapidly worsening conditions of livelihood in the CARs. In case of their absence, the emerging 'upheaval along the silk route' will certainly burst out in all its -still unknown, but likely large- proportions.

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Notes

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1. An excellent and comprehensive analysis of this concept is given by Marie Lavigne (1995).

2. Rumer (1989) and Martin (1994).

3. EIU (1993:72) notes that from 1990 to mid-1992, only from Kyrgyzstan already 200,000 persons emigrated.

4. Rumer (1989) and Martin (1994).

5. In the early 1990s only 12 percent of Uzbekistan cotton and 60 percent of silk cocoons are processed in the country (EIU, 1993:101).

6. Valuation of current output at world market prices gives an obvious advantage to those who produce high-valued raw materials and energy resources, which before had administrative (and mostly extreme low) prices. Previous StatKom SNG and World Bank data seem to indicate that in the 1991 the agricultural sector contribution was much higher than currently (which probably represents well the dominantly rural side of Central Asia). The variations in sectoral shares in GDP and NMP in recent years relate particularly to inconsistencies in methodology, abrupt changes in exchange rates, and severe problems of valuation, which are unfortunately left undiscussed in most CIS or western sources.

7. Lavigne (1995).

8. Henley and Assaf (1995:239) conclude:
   In the absence of any experience of successful privatization of an economy with no recent history of private enterprise nor even an embryonic entrepreneurial class, it is not surprising that the process has been patchy.

9. Henley and Assaf (1995:241):
   The efforts to pave the way for industrial restructuring and recovery will require policy reform and interventions in a myriad of ways from sub-sector restructuring programmes, privatization, FDI, modernization of enterprises, technology through to skill upgrading, retraining in technical skills and management practices.

10. According to StatKom SNG (1996) the 1995 grain harvest in Kazakhstan came to a historic low: 9.5 million tons. In 1990 this was 28.5 million tons, and in 1992 29.8 million tons!

11. In early 1995, in Kazakhstan 22,500 farms were counted that covered 7,800,000 hectares of land. The area represented 3.5 percent of all agricultural land, which means that if the share of plowland would be used this percentage was certainly higher, but most likely not higher than 10 percent. For Kyrgyzstan the figures were 17,300 farms, holding 744,000 ha (7.1 percent), and for Uzbekistan this was 14,200 farms, with 193,000 ha (0.7 percent). In the latter case, where 'land without water is no land' the share of private farms in total arable land would be around 5.0 percent. (These figures are taken from various sources, such as Jacklyn Shend, 1993, Statkom SNG, 1995, World Bank, 1994 and USDA, 1995).

12. This aspect was brought forward by several participants from the CARs, during a World Bank/EDI Seminar in Washington, January 1996, dedicated to Rural Project and Investment Analysis. The particular session was led by Roy Southworth, Team Leader of a Number of CAR-Agricultural Sector Reviews done by the World Bank.

13. In Uzbekistan the government has signed an agreement with the World Bank to undertake a comprehensive 'Farm Restructuring Study' that might be the first step towards de-collectivization and the formation of private farms.

14. In World Bank (1994a:42) it is noted that the subsidized credit to enterprises represented between 9 and 13 percent of GDP. In 1993 this situation was somewhat redressed (Spoor, 1995).

15. Uzbekistan has done quite a lot in 1994 and 1995 to harden the budget constraint for SOEs and to reduce the hidden credit transfers that were highly inflationary. The reduction of inflation (in absence of most of the other reforms) is indicative for its success in this respect.

16. At the end of 1994, the Tajik government announced that a new currency, the Tajik Ruble would be soon released (EIU, 1995:34).

17. This early break-away policy of Kyrgyzstan, combined with the positive evaluation it received from IFIs and other donors, greatly irritated the Uzbek and Kazakh governments, a situation which -in spite of economic cooperation treaties- has not been redressed until now.

18. For example, even in 1991 in Kyrgyzstan 35.5 percent of the budget revenues was coming from Moscow (EIU, 1993:77).

19. In Ashgabat during a visit in December 1995, I was amazed to see that in two years time dozens of very modern hotels had been built, sometimes by ministries, or with foreign funding. However, the occupation rate was extremely low.

20. Interview with the Rector of the Agricultural University (*Selkhoz Institut*) of Ashgabad, Turkmenistan, December 1995.

21. Trade with non-CIS markets was already sharply rising during the 1992-1993 period (EIU, 1995:61), a trend which was renewed (after an initial stabilization) in the years 1994-1995 (StatKom SNG, 1996).

22. Russia represented 42.3 percent of exports and 57.6 percent of imports, with an overall deficit of nearly 1,000 million US Dollars, mainly debit to Kazakhstan.

23. Interview with the Head of the CIS Department of the Ministry of Foreign Affairs, December 1995, Ashgabat, Turkmenistan.

24. Most recently a new modern airport was constructed in Ashgabad, jointly financed and built by the Turkish government.

25. This reminds me of Yavlinksi and Braguinsky (1994) who noted that the reform 'liberalized the inefficiencies of the previous system', while very little was undertaken to replace the planned economy by the construction of an alternative market economy.