

# REGIONAL NON-COOPERATION IN CENTRAL ASIA: A PATHOLOGY

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Since independence from the former Soviet Union, Central Asian leaders and economists have always welcomed the prospect of regional cooperation among the five countries.<sup>2</sup> Their rhetoric and joint proclamations have called attention to their common Turkic<sup>3</sup> and Muslim background. In March, 1998, three of them pledged "eternal friendship." They acknowledge the need for a larger regional market permitting division of labor and a better bargaining position with outsiders. They are aware of the arbitrary Soviet-era borders<sup>4</sup> which often cut across natural economic areas and transportation routes. And yet in the main policy arenas, actual regional cooperation has been noticeable by its absence. Neither economic integration nor water regulation nor even security coordination has been a success, despite all the joint communiqués and speeches. This paper explains why.

Soon after the collapse of the rouble zone in 1992-93 and the adoption of national currencies and central banks, the core Central Asian countries (excluding Turkmenistan) adopted a Central Asian Union and a Free Trade Agreement in 1994. Establishment of a coordinating council and a Central Asian Bank soon followed. In principle trade was to be free among the three, later four after Tajikistan adhered in 1998.<sup>5</sup> This grouping is now called the Central Asian Economic Community. However, despite name changes and frequent summit meetings, coordination of trade policy was never achieved, neither for intra-regional commerce nor for the crucial exchange with Russia and the rest of the outside world. In fact, starting in 1994 Kazakstan's President Nursultan Nazarbaev has enthusiastically promoted what is now called an "Eurasian Union" with Russia, Belarus, Kyrgyzstan, and (since 1998) Tajikistan without any clear understanding of how this would be consistent with the former grouping. Overlapping preferential trade agreements are an economic absurdity. In the event, neither grouping became effective owing to internal disagreements.<sup>6</sup> Russia insisted on a higher external tariff than Belarus and Kyrgyzstan, and the latter proceeded with WTO

membership, which requires MFN treatment for all partners. Russia also charges a VAT on exports, an unusual practice regionally and internationally.

The Central Asian Bank for Reconstruction and Development has had some modest success, as is also true of a parallel institution in the Black Sea Economic Cooperation. The CABRD has funded several small multi-state enterprises, but its mere US\$9m in paid-in capital limits its effectiveness. Although the transportation system of the region was built for trade with Soviet Russia and often traversed union-republican borders without hesitation, the states of the region have done little to improve the poor links with each other. In fact, Uzbekistan is building two roads entirely within its own borders to reach the cities of Samarkand and Andijan from Tashkent. The Kyrgyz have put priority on an all-seasons road from Bishkek, the capital, to Osh in its south. The Tajiks are emphasising a road east to China.

Late in 1996 Uzbekistan made its new currency, the som, inconvertible into hard currency, while the Kazak tenge and the Kyrgyz som were convertible for small transactions and current account trade. The Uzbek action, only partially reversed in mid-2000, has impaired intra-regional trade between that key country - the only one to border all the others - and its neighbours. Tariffs continue to be levied nationally, and ad hoc protectionist measures and outright blockades have marked the last 5 years in the region. As trade in staples, such as cotton, water, natural gas, and oil, are all conducted by state agencies, any failure to pay or other irritation can lead to temporary suspension of deliveries, border closings, or visa-requirements. For example, in 1996 the Kyrgyz cut off water to Kazakstan from the Toktogul reservoir for non-payment of electricity bills.

Riverine water has for centuries been essential to the irrigated agriculture of this semi-arid area. Uzbekistan and to a lesser extent Turkmenistan and Tajikistan could never have become major sources of cotton for Russian industry from the 1860's through Soviet times without the abundant waters of the Amu Darya and Syr Darya, which flow from present day Tajikistan and Kyrgyzstan mountains through the desert valleys to the much depleted Aral Sea far to the west.

Regulation of the flow and allocations is essential to maximize agricultural yields, to avoid desertification, and to avoid open conflict between upstream and downstream powers. The status quo, set in Soviet times, is clearly unstable for a number of reasons. Firstly, the

Kyrgyz and Tajiks wish to exploit the headwaters for hydropower, requiring release of flow from the present and projected dams during winter months. The Kyrgyz Republic, moreover, is demanding the downstream states share in the cost of maintaining the Naryn River dams and reservoirs. Uzbekistan and Turkmenistan require their water mainly in the dry and hot summer months. Both want more water to expand production acreage, but semi-autonomous Karakalpakstan (in Uzbekistan) is the main victim of the notorious destruction of the Aral Sea. Uzbekistani authorities have threatened reprisals if Turkmenistan removes more water from the Amu Darya for the Karakum Canal. What is more, a restored Afghanistan might well want more of the Amu Darya flow, just as China may want up to half of the waters of the Ili and Irtysh rivers, which flow into Kazakstan from the Xinjiang Uigur Autonomous Republic of the PRC.

Several international agencies have set up forums for negotiating these water issues, but both Uzbekistan and Turkmenistan have adamantly refused to take part, preferring a go-it-alone approach of negotiating (or more) with their weaker upstream neighbors. The joint commissions have been underfunded. So far, however, most of the problems have been resolved without violence. And more efficient irrigation techniques, feasible within national borders, could help avoid some of the problems. The Caspian Sea Forum, set up to limit pollution and poaching of the valuable caviar-bearing sturgeon in the common resource, has likewise failed to operate effectively.

During the last five years security cooperation has attracted the most attention from the region's policymakers owing to events in Afghanistan, increased drugs and refugees crossing into Tajikistan, terrorist bombings in Tashkent in early 1999, and the incursions of Islamic forces into the area in spring 1999 and spring 2000. The response by these secular states has been a number of military consultations and coordinated responses, as well as some domestic changes.<sup>7</sup> The Central Asian Battalion (Centrasbat) was formed under the auspices of NATO by the presidents of Kazakstan, Kyrgyzstan, and Uzbekistan. These states have participated in military exercises with American, Russian, and some other CIS troops in recent years.

It should be noted that the principal initiative and force behind these security alliances have been external to Central Asia. Most of the forces in Centrasbat and along the Tajik-Afghan border are Russian. But Centrasbat has not been used to combat the Tajik insurgents. The incursions of the Islamic Movement of Uzbekistan in Batken, Kyrgyz

Republic, in 1999 and again in 2000 have been thrown back by Uzbek forces entering unilaterally into neighbouring states, as well as Kyrgyz army units. In view of the limited numbers of Islamist invaders and their failure to recruit indigenous collaborators, many observers think the Uzbek authorities are exaggerating the external threat for domestic control. Others, however, regard the high youth unemployment in the Ferghana Valley as a fertile ground for future Islamic radicalism. Security fears, whether genuine or exaggerated for domestic political purposes, have led Central Asian politicians to welcome NATO and CIS training, equipment, and forces which they had declined before.<sup>8</sup> Military budgets have increased despite pressing alternative needs in all these countries. Russia signed a new bilateral defense agreement with Uzbekistan in 2000 and has also sponsored regional air defense. Nonetheless, Uzbekistan opposed the idea of Russian air strikes into Afghanistan to support the Massoud forces. The Shanghai Five agreements, which include Russia and are intended to protect the region's borders, have resulted in small arms shipments to Tajikistan from China.

It is not entirely irrational that outside powers would become involved in the security situation of Central Asia. According to some authoritative estimates, about 60% of Afghan opium flows through the region.<sup>9</sup> Since much of the heroin is destined for Russia and Western Europe, not Central Asia itself, such interdiction is similar to that pursued elsewhere. Russia considers that the rebellion in Chechnya is linked to Central Asian fighters and ideologies.

Why has regional cooperation among the Central Asian states been so halting and ineffective despite the salient problems of slow growth, water scarcity, and Islamist hostility?

In all the policy areas, some political factors seem to be working powerfully to diminish the cooperative potential. These are all new states, never before seen on the world stage, and they naturally wish to reinforce the weak national identity by symbolic, administrative, and economic means. All have, to one degree or another, promoted their national languages at the expense of Russian. Nativisation of the bureaucracy is pursued with a resulting massive emigration of Russians, other Slavs, Germans, and even fellow Turkic peoples. This is so despite the disproportionate role of non-natives in the professional and technical roles in these republics.<sup>10</sup>

Absent established parties and in the presence of strong clan, local, or tribal loyalties, Central Asian authoritarianism has become

personalistic. This was the historic pattern of oasis potentates, whose rule had a pronounced hierarchical and patrimonial character. In all five states the president is firmly and semi-legally ensconced in office for the indefinite future. Authoritarian politics calls for nationalistic rhetoric, not shared sovereignty. Despite an earlier agreement, many of the Soviet-era borders in the region are in fact disputed, as would be expected with mixed populations on all sides.<sup>11</sup>

Notoriously, authoritarian politicians mismanage the economy by discouraging free entrepreneurship and competition from domestic or foreign companies. Military and prestige expenditures along with budget deficits tend to grow and be financed by shady or off-budget sources. Middle-class taxpayers resist or escape; corruption mounts; the tax base shrinks. Democratic criticism of waste, corruption, and cronyism is suppressed.

Such has been the experience in Peron's Argentina, Saddam Hussein's Iraq, Gaddafi's Libya, and now in most of Central Asia. One major mistake was the previously mentioned inconvertibility of the Uzbek som despite widespread dissatisfaction in Uzbekistan's business and banking community. Regulation of payments has been extremely wasteful of scarce administrative talent, while hampering development of small and medium-sized industrial enterprises in the Republic. But everyone must await the promised decision from the very top to reverse it in favour of convertibility for the current account (at least).<sup>12</sup>

During the first few years of independence, it might be argued, regional cooperation was less attractive than what might be called "export globalism" - that is, multilateral trade and investment without regard to geographical or ethnic affinity. With the breakdown of Soviet markets, the main exportable products of these countries were staples with world markets. Uzbekistan could sell its cotton most profitably in the West; Turkmenistan, its natural gas; Tajikistan, its aluminum and gold; Kyrgyzstan, its gold; and Kazakhstan, its oil leases.

The carefully nurtured and subsidised manufactures of Soviet vintage were hardly salable in the West, and erstwhile CIS customers now were unable to pay. So the output of Kyrgyz hay-balers, Uzbek cotton-cultivators and airplanes; Kazak metal products; and so on all declined for lack of a ready market. What is more, with proceeds in hard currency from staples, these countries preferred to buy consumer goods and capital equipment from Western Europe, the USA, and

even China, which now entered the lower end of the consumer market with large volumes of shuttle-traded goods. Trade in energy, on the other hand, has been conducted on a bilateral barter basis.

To revive manufacturing markets on a regional basis would require some countries to forego development of product lines or actually close facilities, while expanding others for neighbours' markets. Such regional division of labour has always caused conflict lest a neighbour get the better of the deal. Mercosur in Latin America was delayed years on account of such disagreements. The European Coal and Steel Community went through tough negotiations to close many uneconomic coal mines after World War II.

More than just time is required to develop regional cooperation. Based on experience elsewhere, countries must have high employment growth before they will risk the shutdowns and competition which regional integration might bring. Postwar Western Europe had a strong political impetus as well as a common threat from Communism, and a common protector and patron in the USA.<sup>13</sup> Central Asia has none of these, except perhaps a common threat from Islamic extremists. Russian revanchism is no longer a realistic danger in view of that country's economic frailty, its military weakness, and its preoccupation with the Chechen situation.

The prospects for regional cooperation are dim in Central Asia, and no outside power has a clear incentive to promote it. The interests and/or convenience of Russia, China, Turkey, and the United States are best served by continued state-to-state relations. Any joint Central Asian demarche would only complicate matters. Divide and conquer served the Romans in military matters; it serves present day powers in economic and security affairs.

The most promising agent for regional cooperation would be multi-lateral donors truly interested in economic prosperity in the region, if only to prevent instability and migration. The Asian Development Bank, in which all the Central Asian states are members, has promoted regional cooperation in southeast Asia with its Mekong River plan and has undertaken a number of road projects to connect trans-border areas in Central Asia. These communication and transportation projects have great promise, once the commercial and industrial activity in Central Asia is freed of governmental trammels, like inconvertible currencies, border taxes, and corruption. Free trade zones might perform better, too. If the European Union, World Bank,

UNDP, and the Japanese Overseas Economic Cooperation Fund were to make regional cooperation a condition for major loans and assistance, some positive response might be expected. These donors, unlike the efforts of the major military powers, are not in conflict with each other and are open to joint ventures for the benefit of the Central Asian region.

Private, multinational firms also have an interest in regional cooperation. Agricultural machinery manufacturers, for example, have shown an interest in opening facilities if access to neighbouring markets can be assured. With careful negotiations, these large firms could be persuaded to open facilities in each of the cooperating states to the benefit of all concerned. Eventually, multinational firms - including, eventually, Central Asian equity participation - would provide part of the mortar which would rebuild the region's division of labour on free market principles. The members of NATO have an interest, if not a direct part, in realising this potential.

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2. Kazakstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Tajikistan.
3. Tajik is a Persian language; the others speak various Turkic languages. Russian is almost universally spoken by the elites.
4. In 1993 a joint communique affirmed these Soviet borders and established diplomatic relations, but some border disputes have arisen nevertheless.
5. It is sometimes forgotten that intra-CIS trade was supposed to be free according to a treaty signed in 1994. M.B. Olcott, A. Åslund, and S.W. Garnett, *Getting It Wrong* (Washington, D.C.: Carnegie Endowment, 1999), p. 170.
6. Visa-free travel was, however, introduced in the Eurasian Union in April, 2001.
7. Nearly all the presidents, formerly Communist functionaries, have proclaimed their loyalty to Islam, increased accommodation of the established clergy, tried to reduce youth and rural unemployment, and of course increased surveillance and repression of dissidents.
8. The US has given mobile radios, but no arms. So far, the Partnership for Peace of NATO has confined itself to educational, diplomatic, and peacekeeping exercises. The GUUAM grouping, aligned with NATO, has shown little institutional development and may dissipate soon. The Russians included Uzbeks in their 1999 exercises and recently sold Uzbekistan Ka-50 (Black Shark) helicopters to add to its Russian-made fleet. But the provisions of the 1992 Tashkent Treaty have fallen into desuetude.
9. According to Ralf Mutschle, assistant director of Interpol's Criminal Investigation Division. He added that the IMU itself may be responsible for 70% of that import. *Wall Street Journal*, May 3, 2001, p. A8. A Bush Administration official was said to agree.
10. Uzbekistan has been the most aggressive in nativisation, the Kyrgyz Republic the least, perhaps reflecting the relative availability of trained native cadres.
11. These borders were deliberately drawn in the 1930's by Stalin to divide Turkestan after the Basmachi revolt, the main historical example of Central Asian military cooperation.
12. For a detailed discussion the problem and recent changes see my "Convertibility of the Uzbek Som," *Journal of Central Asian Studies*, forthcoming, 2001.
13. Besides the famous Marshall Plan aid, the USA was long willing to overlook the trade diversion inherent in Europe's Common Agricultural Policy and its other protectionist policies. The USA provided a large share of strategic forces for NATO in its earlier years, despite some domestic reluctance to keep American troops at European bases.