CHAPTER 2

ECONOMIC REFORM AND PERFORMANCE IN CENTRAL ASIA

Richard Pomfret
University of Adelaide, Australia

INTRODUCTION

This chapter analyses the economic reforms undertaken by the five Central Asian countries which became independent following the dissolution of the Soviet Union in December 1991. For Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan the completely unexpected challenges of nation-building were superimposed on the transition from a centrally planned economy, which had begun in the late 1980s but had little influence on Central Asia before the Soviet economic system began to unravel in 1991. The indigenous capacity for economic management was limited because during the Soviet era development strategies were determined in Moscow. The region had been planned as a single unit, or perhaps more accurately as parts of the single unit, that had been the Soviet economy, and all five countries suffered serious disruption from the replacement of the USSR by fifteen independent countries. Attempts to maintain economic links by retaining the ruble as a common currency in 1992-3 exacerbated the problem of hyperinflation and had to be abandoned by the end of 1993. The decade of the 1990s was then devoted to nation-building, and establishing post-Communist political and economic systems.

In the decade following independence, political and economic reforms followed different patterns in each of the five countries of Central Asia, but by the early twenty-first century all five countries had essentially completed the process of nation-building and the transition from central
planning.\(^1\) Political change occurred, but the political systems that emerged in the Central Asian countries were among the least-reformed amongst the Soviet successor states. In four of the countries First Secretaries appointed by Mikhail Gorbachev remained in power as Presidents, and in Tajikistan political development since the Civil War has been towards consolidation of the powers of a strong presidential regime. Within the common bounds of resource-based economies and autocratic regimes, the five countries gradually became more differentiated as their governments adopted surprisingly diverse strategies for transition to a market-based economy.

The Kyrgyz Republic was one of the most liberal and rapidly reforming transition economies. One indicator is that, in July 1998, it became the first Soviet successor state to accede to the World Trade Organization.\(^2\) Kazakhstan in the early 1990s appeared to be accompanying the Kyrgyz Republic on a liberal path, but the president became more autocratic as the decade progressed and the economy became dominated by a small group of people who controlled the media and the banks. Kazakhstan is considered a reformist regime, although the country has many similarities to Russia in the way that privatization created powerful private interests that distorted the reform process (Kalyuzhnova, 1998; Olcott, 2002).\(^3\) The other three Central Asian countries were slower to stabilize the economy, and were more suspicious of market forces. Turkmenistan’s regime became increasingly personalized and autocratic, pursuing a policy of neutrality and economic independence, with minimal economic reform

\(^1\) The situation before independence and the immediate post-independence period (1992-3) are analysed in Pomfret (1995). Islamov (2001) and Gleason (2003) provide alternative accounts of the region’s economic development during the 1990s.

\(^2\) The Kyrgyz Republic’s image as an “island of democracy” in Central Asia became tarnished in 1994–6 when President Akayev ruled by decree in order to push through what he considered necessary legislation. Opponents were intimidated and opposition media suppressed. The October 2000 election, in which Akayev was returned to power, was viewed by outside observers as flawed. Nevertheless, the media is more open than elsewhere in Central Asia, and the feeling of oppression is less than in some of the Kyrgyz Republic’s neighbours. Since autumn 2001, when the government ceded 95,000 hectares of territory to China, and March 2002, when demonstrations in the south were forcibly suppressed with six deaths, opposition to the regime has become more pronounced.

\(^3\) An important difference to Putin’s Russia is the personal wealth of the President and his relatives, which is more reminiscent of Soeharto’s Indonesia. Since the turn of the century, it is unclear how strong the position of the financial/economic/media groups is, and whether the President is the biggest oligarch or the defender of the public interest against the ten mega-holdings which control over four-fifths of the economy (a claim made, for example, in President Nazarbayev’s speech opening Parliament on 3rd November 2004).