

Central Asia: Governance, geopolitics and development challenges

Central Asia needs more serious external engagement in its development

Central Asia is a developing region that is neglected in development and aid policy debates.¹ The international community's focus is more 'geopolitical' than 'developmental'. Interest centres on countries' valuable geo-strategic position between the three 'giants', Russia, China and India, and their role as a source of energy (oil, gas and hydropower) and mineral resources. The European aid community, particularly in the UK, has paid rather little attention to the development challenges facing Central Asia. This has two negative consequences: firstly, the region receives few inputs in terms of development research and policy attention. Secondly, external engagement that is motivated predominantly by geopolitical concerns can actively contribute to a lack of broad-based social, political and economic development.

This Briefing Paper seeks to draw greater attention to Central Asia as a developing region. It analyses the governance situation, which poses a key obstacle to development. Focusing on the role of external actors it argues that European countries and the EU should play a greater role in supporting the region's development, and in helping to reduce the negative spill-overs from 'geopolitics' on governance and development.

The tableau of development challenges

Central Asian countries – Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan ([see map](#)) – are low and lower middle income countries facing multiple development challenges. All countries in the region are landlocked and generally are burdened by high transportation costs. Their societies have had



Rural economy in Mongolia: Donor engagement is needed to improve aid effectiveness.

to cope with severe economic crises following the break-up of the Soviet Union. Poverty levels and inequality increased sharply in the 1990s. Public services have frayed, particularly in rural areas. Some Central Asian countries have rapidly accumulated high levels of debt. Moreover, Kyrgyzstan, Uzbekistan, and Tajikistan are potentially fragile states.

In some Central Asian countries poverty levels are close to those found in sub-Saharan Africa (Table 1), although there has been some reduction from the peak reached in the late 1990s. Rising inequality during transition has fundamentally affected the way in which these societies operate socially, economically, and politically.

Performance on Millennium Development Goals is mixed: primary school completion rates are high, one of the positive legacies of the Soviet period. However, a fifth of the population may be under-nourished according to the UN data, close to levels in Southern Asia (21%) and sub-Saharan Africa (31%). Furthermore, the region has high rates of under-five child mortality (78 per 1,000

Key points

- Central Asia faces multiple development challenges but often remains outside 'development debates'.
- The West should focus on development in the region as well as energy and security.
- The European Union has an important role to play, especially in promoting better governance.

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Table 1: Key development data

	Kazakhstan	Kyrgyzstan	Mongolia	Tajikistan	Turkmenistan	Uzbekistan	sub-Saharan Africa	South Asia
Per cap income (2005 GNI) in \$US	2,930	440	690	330	..	510	754	594
% of population earning <\$2 per day	17 (2003)	23 (2003)	75 (1998)	42 (2003)	44 (1998)	72 (2000)	77 (2001)	78 (2002)
Population (m)	15.1	5.2	2.6	6.5	4.8	26.6	704.5	1,447

Source: World Development Indicators 2006

live births).² Water scarcity is a serious issue in most areas of Central Asia, increasing human vulnerability.

The economies of Central Asia are highly dependent on the export of natural resources (oil, gas, gold, and copper) and a few other commodities, such as cotton and cashmere. Another major source of income is remittances. The recent boom in prices for natural resources, and improving income opportunities in Russia and various Asian countries have buoyed Central Asian economies since 2000; but they remain vulnerable to changes in these external trends. Kazakhstan is the only Central Asian country which has substantial economic potential in the short- to medium-term.

Central Asian development challenges are different from those in Africa or South Asia: basic public services such as education were established several decades ago and access to basic schooling has remained nearly universal. However, poverty – related to sharply increased social insecurity and inequality – has emerged as an acutely felt new problem. The existing literature on poverty and development which is largely based on the African and South Asian experience does not speak directly to these particular dynamics and challenges faced by societies in Central Asia. At the same time, Central Asia shares a range of problems with many other developing countries; especially a feeling that political elites show little concern for furthering the welfare of people.

External actors – the scramble for resources and allies

The outside world’s engagement with Central Asia is dominated by geopolitical, rather than developmental concerns. The main external ‘players’ are Russia, the US, and China; but India, Japan, Turkey, and the EU are also involved in various ways. European countries potentially have the most ‘developmental’ perspective; but are also directly or indirectly interested in the region’s energy resources.

Russia still regards Central Asia as part of its ‘sphere of influence’. A minority of ethnic Russians still live in Central Asia, and Russian remains an important language of communication and learning. Russia has viewed the ‘intrusion’ of other actors with suspicion; and has sought to renew its security ties with Central Asian countries in recent years, concluding several new security treaties. However, Russia has largely rescinded its Soviet-era commitment to developing the region. It could be a major force promoting a more

‘developmental’ orientation among the region’s leadership, but in recent years has focused almost entirely on geopolitical concerns, as well as its own economic interests.

For the US, Central Asia became a key region in the post-2001 period. Uzbekistan and Kyrgyzstan provided the

US with military bases in the ‘war against terror’. At least temporarily, scruples about Uzbekistan’s human rights practices were set aside. However, in 2005, relations between the US and Uzbekistan cooled off, the US had to abandon its airbase, and Uzbekistan reverted to building closer ties with Russia. More recently, the US has been focusing on the region’s energy resources and is seeking to secure these for its allies in competition with China and Russia. For example, the US has been courting Turkmenistan to consider a new pipeline project, which would divert some Turkmen gas (currently exported entirely via Russian pipelines) to Pakistan and India.

China is providing large investment credits to build roads and power-lines. In 2007, Tajikistan is due to receive the first instalments of loans totalling more than \$600m. China also provides substantial loans to Mongolia and Kyrgyzstan. Moreover, it is a major trade partner, and particularly in Mongolia, a dominant foreign investor.

Turkey, Japan, and India are also each interested in the energy potential of the region; as well as in balancing China’s influence. Turkey has the strongest cultural attachment sharing linguistic groups and cultural history with Central Asia; while India’s engagement in renovating an airbase in Tajikistan is more part of regional security rivalries.

Development assistance

Aid flows to the Central Asian countries have been uneven and driven by geopolitical interests on the one hand, and openness to the outside world on the other. In 2004, of the six countries, Mongolia received the largest amounts of aid: \$104 per capita, or 16.2% of GDP (World Development Indicators, 2006). Turkmenistan has closed itself off almost entirely from the outside world, relying on its vast natural gas reserves. Consequently, it receives almost no aid (\$7.8 per capita; 0.6% of GDP) despite significant levels of poverty (Table 1). Uzbekistan, at \$9.4 per capita and around 2% of GDP, similarly receives very little aid although its economic situation is difficult and poverty is widespread. By comparison, aid accounts for 10 to 25% of GDP in many smaller low income countries elsewhere.

Large amounts of assistance to Central Asia have come from the US and from Japan. However, US aid peaked in 2002 (falling from \$450m in that year to \$223m in 2005), and Japanese aid has also declined since 2003 (from around \$300m to \$110m by 2005).

Flows from the EC and Germany have grown (reaching \$120m and \$190m respectively in 2005). Apart from the EC, multilateral assistance has come from the Asian Development Bank (ADB) and the World Bank (IDA) but their share has been modest (\$46m from the ADB and \$84m from the WB in 2005). Aid from the UK has been (very) small in financial terms, amounting to \$14.4m for all six countries in 2005.³

Both the US and Japan have been keen to contain the influence of Russia and of China on the region; furthermore, Japan is interested in the region's energy resources as a way to diversify its supplies. A substantial share of US aid to Central Asia has focused on security and law enforcement, including border protection in Tajikistan. Growing dissonance, especially between the US and Uzbekistan, has contributed to a decline of US aid to the region.⁴

In the more aid dependent Central Asian countries – Mongolia, Kyrgyzstan, and Tajikistan – relatively little attention has been paid to ensuring effective use of the aid provided. According to the recent Paris Declaration baseline survey, only 2% of aid received by Mongolia is recorded in the Government's budget.⁵ Budget support accounts only for small shares of aid. Central Asia's major donors have not been sufficiently engaged on aid harmonisation and alignment, and on learning lessons from good aid management elsewhere. For recipient countries in the region, Western aid was a novelty in the 1990s, departing radically from the way assistance had previously been provided by the Soviet Union, and effective aid management has not been a political priority.

The engagement of the EU and its member-states in the region is currently growing. This is a hopeful development, since European partners have fewer geopolitical interests in Central Asia, and hence can take a more development-focused perspective. They can also bring a particularly intensive experience with transitions and with rebuilding states and economies in other parts of Eurasia to the table.

In 2005, the EU appointed a special envoy to the region to develop foreign policy linkages. The EU is currently designing a new strategy for its relations with Central Asia, to be unveiled in June 2007. The strategy is expected to cover development cooperation, but to focus primarily on closer cooperation with

regard to the region's potential role as an energy supplier for Europe.

Governance: no easy region to engage

Efforts to deliver more effective development assistance will have to grapple with challenging governance environments. Five of the countries in the region are new states which only emerged after the break-up of the Soviet Union in 1992. Economic transition has resulted in rapid re-allocations of property rights and has led to a concentration of political and economic power (albeit with considerable variation with regard to the political regime).

Figure 1 summarises the governance situation across the six countries, drawing on the World Bank's governance indicators, and data from the Center for International Development and Conflict Management on security. With some variation, all six countries have seen state capture by narrow elites and a rise in corruption. The presence of substantial natural resources combined with low levels of accountability has offered opportunities for state capture by small groups around the top leadership. Natural resources play a particularly important role in the political economies of Turkmenistan (gas), Kazakhstan (oil and gas), and Mongolia (copper and gold). At the same time, petty corruption has become pervasive. On Transparency International's corruption ratings (which uses a scale of 1-10 where 10 signifies a country perceived as free from corruption) all six countries fall into the bottom third. Uzbekistan, at 2.1, has the lowest rating; Mongolia has the highest at only 2.8. These ratings put the region on the same range as Madagascar and Chad in sub-Saharan Africa.

Central Asia is a region containing some highly authoritarian governments. Regimes in Turkmenistan and Uzbekistan are accused of having committed serious human rights abuses. President Niyazov of Turkmenistan established a highly eccentric and personalistic dictatorship before his sudden death in December 2006. In Turkmenistan as well as Uzbekistan, donors have found it difficult to work due to these political conditions, which in turn has contributed to the neglect by the international development community.

State fragility and associated security risks exist, especially in Uzbekistan, Tajikistan, and Kyrgyzstan.

Figure 1: Governance indicators in Central Asia

	Kazakhstan	Kyrgyzstan	Mongolia	Tajikistan	Turkmenistan	Uzbekistan
Political stability	High	Very low	High stability, some risk	Medium stability, with considerable risk	High stability, but with considerable risk	Medium, with high risk
Voice and accountability	Low	Medium	Medium to high	Low	Nil	Nil
Control of corruption	Medium-low	Very low	Low	Low	Low	Low
Administrative reforms and modernization	Medium	Medium-low	Medium	Low, but advancing	Low	Low
Security risks	Internal – medium External – medium	Internal – high External – high	Internal – medium External – medium	Internal – high External – high	Internal – high External – high	Internal – high External – high

Source: author's typology, based on WB/KKZ (stability, V&A, CoC, reforms) and the Center for International Development and Conflict Management (security).

Kyrgyzstan has a more liberal political climate, but has become increasingly unstable since the so-called 'Tulip revolution' in March 2005, which failed to generate a stable and legitimate government. Tajikistan experienced civil war from 1992 to 1997. It has had a relatively authoritarian government since, with some commitment to development and acceptance among the population.

State capture contributes to fragility via low commitment to poverty reduction and to improving the lives of people, particularly those outside capital cities. In Uzbekistan, the most populous country in the region, levels of discontent and tension are running high. Several bomb attacks have been carried out against the president and other senior members of the state apparatus in recent years. These have been linked to rising discontent with the regime and its stifling of economic opportunities and civil liberties.⁶ Poor domestic governance also aggravates external security risks. Tajikistan, Turkmenistan, Uzbekistan and Kyrgyzstan are part of the narcotics trade routes from Afghanistan to Russia and to Central and Western Europe.

Kazakhstan – the wealthiest country of the group – is governed by a more enlightened authoritarian regime; but state capture is still a serious issue. Mongolia has the most liberal political regime and enjoys a relatively high degree of stability, but worsening corruption and nepotism lead to rising discontent.

Tackling poverty and inequality in the region effectively will require an engagement with these governance problems. In Mongolia and Kyrgyzstan, and to a lesser degree in Kazakhstan and Tajikistan, there may be sufficient openness for development actors to start a more serious engagement. In Uzbekistan and Turkmenistan, European development actors need to build engagement but may not be able to address, let alone make progress on, underlying governance issues for some time. On a positive note, high educational levels relative to per-capita GDP mean that the conditions for building more capable and modern public administrations are better than in many developing countries; but especially in the more authoritarian political regimes, this process is nonetheless a difficult one.

The way forward: getting European donors engaged as promoters of change

The problems of the region are challenging; and given internal governance problems, the 'resource curse' and geopolitical competition, they are unlikely to be resolved soon. However, as European foreign policy engagement in the region is growing, it is important

to match this by putting the region more firmly on the map of European development actors. The EU and individual European countries need to play a larger role driven by the region's long-term development needs as much as by the EU's interests in energy resources; and they need to seek a positive influence on governance in the region as an essential base for sustained and equitable development.

We make five proposals to guide a more intensive engagement of the EU and of European donors with the region.

- Greater foreign policy engagement by the EU and its members in Central Asia needs to be matched by greater engagement on development issues facing the region; including supporting more and better aid, as well as more research on the development challenges and solutions for Central Asia.
- As the EU and European countries intensify their development engagement, they need to coordinate to a greater extent, at the strategic as well as at the operational level. Fragmented European engagement is unlikely to achieve transformation in the region's governance and development.
- Coming to grips with a challenging governance environment will require a balance between driving reforms and promoting stability. A focus should be to encourage and support the development of accountability in crucial areas: the mining/natural resource sectors, service provision, and policies addressing poverty and insecurity. Political elites may feel overly threatened by calls for 'democratisation', but have to accept a 'moral obligation' to do more for the life of citizens.
- An important component in promoting better governance is the encouragement of linkages between Central Asian countries and the wider world. Europe can support this through development assistance, as well as scholarships, study visits, research activities, assistance for tourism development, etc. Only by exposure to ideas and practices can the region's societies ultimately develop.
- The EU needs to engage with others, most importantly with China and Russia; as well as with other OECD/DAC donors. It should mitigate the geopolitical tendencies of other actors and promote a climate of support for the region's long-term development among all major external stakeholders.

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Notes and references

1. The five former Soviet Central Asian republics as well as Mongolia are included in the analysis. Mongolia shares many historical features and development challenges with the five former Soviet republics; although it differs in terms of religion and in having a longer legacy as a state.
2. Regional averages. United Nations: The Millennium Development Goals Report 2006.
3. All data is based on the OECD Creditor Reporting System and reflects commitments, not disbursements.
4. See: Central Asia: Regional Developments and Implications

for U.S. Interests, November 2006; <http://www.fas.org/sgp/crs/row/RL33458.pdf>.

5. For information on the baseline survey, see: http://www.oecd.org/document/52/0,2340,en_2649_15577209_36162932_1_1_1_1,00.html.

6. Bombings took place in March 2004 on a market in Tashkent. In May 2005, protests erupted in Andijon, resulting in the killing of an estimated 400 to 1000 people.

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