Introduction

RECONNECTING CENTRAL ASIA AS THE CROSSROADS OF EURASIA

For much of the last two millennia, Central Asia was a crossroads through which “silk roads” connected the major cities of Asia and Europe (Xian, Delhi, Baghdad, Damascus, Rome, Venice, etc.). At times between 900 and 1400, Merv (Mary), Bukhara, and Samarkand were among the world’s largest cities and leading centers of learning. The empire of Tamerlain (Emir Timur) covered much of Central and Western Asia around 1400, and it was from Central Asia in the 1500s that Babur established the Mughal Empire in South Asia. In the 1500s, however, Portuguese and Spanish sailors established new maritime routes between Europe and East Asia that supplanted overland routes. As the economic significance of Central Asia diminished, the region turned inwards and left the world stage.

The region continued to be divided between sedentary societies in the area defined by the two rivers that flow into the Aral Sea, the Amudarya and the Syrdarya, and nomadic people on the steppes to the north and the deserts to the west. Between 1688 and 1760, Russian influence gradually extended south, as various Kazakh groups sought protection against other nomads.1 By the nineteenth century, the sedentary areas were ruled by the Emir of Bukhara and the Khans of Khiva and Kokand. In two decades starting in 1865, these territories and those of the Turkmen were brought into the Russian Empire.

1. Russian territory also expanded to include Siberia (1580–1640), the Caucasus (1785–1830), and the Far East (1850–65). Initial expeditions to conquer Central Asia failed, largely due to distance through inhospitable terrain.
The southern border of the Russian Empire was set in 1895, with Afghanistan as a buffer zone between the Russian and British Empires. Mountains to the east form a natural border with China, and the Kopet Dag range provides a less substantial natural border with Iran.

Russia administered the region as the province of Turkestan, ruled by a governor-general who reported directly to the tsar. In the half century after 1865, Central Asia was established as the major supplier of cotton to Russia’s textile mills. The Russian government created some elements of a modern economy (notably railroads from the Caspian Sea to Tashkent and from Tashkent to Moscow), but investment in human capital was minimal as Asian and European populations were kept largely separate.

After the Bolshevik Revolution in 1917 and the ensuing civil war, Central Asia was incorporated into the Union of Soviet Socialist Republics (USSR). Central Asia became part of the centrally planned Soviet economy. Although the region was divided into five socialist republics that would become independent nations in 1991, the Soviet economy was planned as a single unit. After 1928, agriculture was collectivized, a process bitterly opposed and violently imposed in the pastoral regions. Little industrialization took place in Central Asia, apart from removal of factories in western USSR to Tashkent during the 1941–45 war with Germany. Central Asia’s role in the Soviet economy was mainly as supplier of raw materials: the cotton sector expanded, and minerals and energy resources were developed. Major social development occurred, as basic needs were satisfied and education and healthcare became universally available.

In the 1920s and 1930s, the USSR was internationally isolated, forced to create “Socialism in One Country” rather than being in the anticipated vanguard of international communism. Even after 1945, Soviet allies and satellites in Eastern Europe were far away from Central Asia, and Asian countries that followed the Soviet model in the 1950s (the People’s Republic of China, the Democratic People’s Republic of Korea, and North Vietnam) were geographically disconnected from Central Asia after the Sino-Soviet split in 1960, when Central Asia’s eastern border was sealed. In sum, both as part of the tsarist Russian Empire from the 1860s to 1917 and within the USSR from 1917 to 1991, Central Asia had minimal relations with outside countries.

The Soviet centrally planned economy was a coherent system that was difficult to change by piecemeal reform. Reform of central planning had begun in the late 1980s, but with little impact before the Soviet economic system began to unravel in 1991; the experiments with reform never took place in Central Asia. The system was beginning to crumble in 1991 as some prices


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were freed and inflation increased, but the real and sudden shock to the system occurred at the end of 1991 when Boris Yeltsin took Russia out of the USSR in December and freed virtually all prices in Russia at the start of 1992.

The five Central Asian countries became, somewhat unexpectedly, independent with the dissolution of the Soviet Union on December 25, 1991. The Communist first secretary in each Soviet republic was transformed into president of a new country, whose status was quickly recognized as the five countries joined the United Nations in 1992. Nation-building and political consolidation of the leader’s position were at the top of the agenda, but each country also had to establish a new economic system on the remnants of a centrally planned economy, with limited local capacity to replace central planning from Moscow.

1.1. Nation Building and Challenges of Transition from Central Planning

A striking feature of post-independence Central Asia has been the regional stability, reflected in the limited political evolution and the absence of interstate wars or secession. In 1992, there was considerable doubt about how long the five Central Asian countries would remain peacefully independent. In fact, there were no interstate wars in the region, and they have remained independent longer than the new states created after the dissolution of European empires in 1919.

In four of the countries, first secretaries appointed by Mikhail Gorbachev remained in power as presidents, and the national leaders retained much of the old political structure under new non-Communist names, even though they adopted diverse economic strategies. The Kyrgyz Republic embraced

Pomfret (2002b) describes the collapse of central planning and the challenges of constructing a market economy. Åslund (2013) argues the benefits of rapid reform.

3. In 1990, the republics had made declarations of sovereignty, staking a claim over the resources on their territory. However, in the March 1991 referendum on the future of the Union, support for keeping the status quo was stronger in Central Asia than elsewhere in the USSR. When conservatives tried to oust Mikhail Gorbachev in August 1991, only the Kyrgyz republic’s leader, Akayev, was quick to denounce the plotters; Kazakhstan’s Nazarbayev more cautiously sided with Russian president Boris Yeltsin, while other Central Asian leaders welcomed the coup. After the coup’s failure, the leaders made stronger declarations of independence on what are now public holidays: August 31 in Kyrgyzstan, September 1 in Uzbekistan, September 9 in Tajikistan, October 27 in Turkmenistan, and December 16 in Kazakhstan. However, the Soviet Union continued to exist until President Gorbachev resigned and the Soviet flag was lowered over the Kremlin for the final time on December 25.

advice from Western institutions and advocates of rapid change and, within limits, President Akayev fostered the emergence of the most liberal regime in the region. Turkmenistan was the polar opposite; President Niyazov established a personality cult and minimized economic change. Kazakhstan in the early 1990s appeared to be accompanying the Kyrgyz Republic on a liberal path, but President Nazarbayev became more autocratic as the decade progressed and the economy became dominated by “oligarchs” who benefitted from privatization of state assets and controlled the media and the banks. Uzbekistan retained a tightly controlled political system, but without the personality cult of Turkmenistan; President Karimov’s economic reforms were gradual and modest. Tajikistan was the only one of the five countries not to evolve peacefully from Soviet republic to independent state under unchanged leadership. The bloody civil war of 1992–97 dominated political developments and destroyed any vestiges of central planning; prices were freed, but without any serious and consistent economic strategy for establishing a market-based economy. By the end of the 1990s, President Rakhmonov had established a super-presidential political regime with many similarities to the rest of the region.

In all five countries, the political regimes were characterized by concentration of power in the executive branch that was in turn very personalized. Parliaments have been weak in all cases except the Kyrgyz Republic after 2010. Some writers (e.g., Cooley and Sharman, 2015) call the regimes kleptocracies rather than super-presidential, while Marat (2015) emphasizes that the twin motives of maintaining power and amassing wealth were often complementary.

During the 1990s, the Central Asian countries focused on nation-building and transition to market-based economies, the nature of which varied from country to country (Pomfret, 2006; Gleason, 2003). The new regimes had considerable discretion over the type of market-based economy to create, but also faced economic constraints. Still using the ruble as a common currency, the Central Asian countries had no option other than to follow Russia’s price liberalization, at least for tradable goods. With Russia and other newly inde-
independent transit countries now charging for previously free transport services, many supply chains collapsed in 1992 and 1993.7

The five governments adopted diverse economic strategies, from the most reformist, Kyrgyzstan, to the least reformist, Turkmenistan’s personalized autocracy. Given the shared geography, history, and cultural background of the five countries,8 observers envisioned a natural experiment to test the efficacy of differing approaches to the transition from central planning and of the variety of market-based economic systems.9 However, completion of the essentials of transition by the turn of the century coincided with the start of a super-cycle in world prices for resources, most importantly oil, that dominated economic performance in the early twenty-first century.

In 1992 cotton, energy products, and minerals dominated the Central Asian economy. The specific resource endowment varied among the new independent countries, as did the degree to which resources had been developed and the vintage of the inherited facilities. Being able to sell resources on world markets would yield benefits, but the actual impact depended on how easily resources could be transported to international markets and on world prices. All the governments faced the challenge of how to exploit their undeveloped natural resources, and whether and how to diversify the national economies beyond primary products.

Resource endowment was crucial for two main reasons. Firstly, it affected the choice of transition strategies. Cotton is easy to transport and in 1992–96 world prices were buoyant, so that revenues from cotton exports enabled the governments of Uzbekistan and Turkmenistan to postpone economic and political reforms. By contrast, the lack of any readily exportable resources contributed to Kyrgyzstan’s decision to take the most radical reform path. Kazakhstan had abundant coal and minerals and potential oil wealth, but world energy prices stagnated after 1992; the government focused on signing agreements with foreign oil companies to explore for and to exploit oil and gas

7. Pomfret (1995) describes the economic background and the newly independent Central Asian countries’ initial economic policies, which were dominated by reactions to the end of central planning and the collapse of the ruble zone in 1993.

8. Central Asia is a region defined by geography, history, and culture. The majority religion is Sunni Islam. In four countries, the national language is Turkic, while Tajik is related to Farsi (Persian); during the Soviet era, Russian was the common language throughout the region. Starr (2008) argues that the five countries are part of Greater Central Asia, and not a separate region. This is controversial, especially in Russia, which prefers to see Central Asia as part of a Eurasia that includes the non-Baltic former Soviet Union but not Afghanistan or other points south (Safranchuk, 2016).

9. There were, however, significant differences in administrative capacity. Uzbekistan inherited a better cadre of managers in Tashkent, the administrative capital of Soviet Central Asia, while Kazakhstan had a relatively large share of college graduates, so that the two large countries had greater potential for efficient economic management than the three smaller countries.
reserves—a process that distracted the government from early commitments to rapid reform and provided fertile ground for high-level corruption.

Secondly, although the transition from central planning was essentially completed by 1999, economic performance of the five countries over the next decade was dominated by their natural resource endowment rather than choice of transition strategy. As oil prices soared from under $20 a barrel to $140 before collapsing and partially recovering in 2008–9, Kazakhstan and Turkmenistan enjoyed energy-driven booms. Uzbekistan benefitted much less from the oil boom, while the Kyrgyz Republic and Tajikistan fell behind. The main impact on the last three countries was a rapid increase in labor migration to the booming Russian economy and the emergence of remittances as a dominant economic feature; by 2010 Tajikistan had the world’s highest ratio of remittances to GDP and the Kyrgyz Republic had the third-highest ratio.

The early twenty-first century also saw changes in the external environment. Central Asian economic relations with China expanded rapidly in the first decade. In the second decade, the Russian-led Eurasian Economic Union became the first regional trading arrangement implemented in the former Soviet space, after two decades of regional disintegration. Starting in 2011 regular rail services were established between China and Europe via Central Asia, and in 2013 China announced its One Belt One Road project, which included strengthening the Eurasian landbridge with projects financed from the newly created Asian Infrastructure Investment Bank. China was also promoting the China-Pakistan Economic Corridor, which Central Asian countries could join via the Karakoram Highway to connect to South Asia without the risky passage through Afghanistan. In 2016, easing of Western sanctions indicated that Iran might finally be reintegrating into the global economy; the process was anticipated by India, which invested in facilities at Chabahar Port that was linked by sea with Mumbai and by rail through Iran to Turkmenistan and Uzbekistan or through the rail connection opened in December 2014 from Iran to Turkmenistan and Kazakhstan.

1.2. Outline of the Book

The next two chapters analyze the creation of a market economy and the impact of resource abundance from a region-wide perspective. Chapter 2 provides further background on the initial conditions and choice of development strategies, preliminary assessments of comparative economic performance, and a snapshot of social and economic conditions a decade after independence. The first decade was critical for the “transition” from central planning, because by the end of the decade the transition was essentially complete and “paths once taken are unlikely to be challenged and abandoned fast or frequently” (Wooden and Stefes, 2009, 249). Chapter 2 concludes with a statisti-
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al snapshot of the five economies in the twenty-first century. Chapter 3 analy-
izes the economic features of the region’s key resource exports and the evolu-
tion of their world prices.

Part 2 describes the different national economies and analyzes the out-
comes of the different transition strategies. Differences in the five countries’ eco-
nomic performance in the 1990s to some extent reflected policy choices, but after 2000 comparative performance became dominated by the global boom in oil prices. During the 1990s Kazakhstan’s output performance was inferior to Uzbekistan’s, but after the turn of the century Kazakhstan, as a significant oil producer with major new discoveries coming online, experienced an economic boom. For Turkmenistan, after 1999 the energy boom alleviated pressures to change poor economic policies. Both gradual-reforming Uzbekistan and rapid-reforming Kyrgyz Republic enjoyed less spectacular growth, and in the twenty-first century have clearly lower living standards than Kazakhstan. Tajikistan is even worse placed; the economy has recovered but slowly from a very deep trough, and Tajikistan now ranks among the world’s poorest nations.

The Central Asian economies’ in the twenty-first century do not operate in a vacuum. Chapter 9 analyzes alternative strategies, multilateral and re-
regional, pursued by the Central Asian countries to integrate into a wider eco-
nomic circle, emphasizing the shift from being part of the highly integrated Soviet economy to regional disintegration in the 1990s and early 2000s and then, after 2006, steps towards greater cooperation and integration. Chapter 10 examines bilateral relations with external economic powers and private foreign investors. Chapter 11 analyzes implications for Central Asia of new rail links between China and Europe, which foreshadow the region’s return after half a millennium to being the central hub of Eurasia.