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## REP Seminar Summary

# The Politics of Decision-Making in Central Asia

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## Session One: Networks of Power

The first presentation provided a broad conceptual and historical framework for understanding the influence of clan networks on politics in Central Asia. The speaker examined three main issues: what are clans in Central Asia; how they affect political and economic decision-making; and, what are the consequences of these social formations for political development.

The speaker argued that clans are informal networks of particularistic ties, based on kin, fictive kin (e.g. marriage, mahalla), and close, trusted friendships (made through school, university, village, mahalla, or sometimes long-standing business relationships). Clans involve elements of patronage, nepotism, clientelism and corruption, but clan members also have a strong sense of shared identity, and their actions are shaped by communal norms and interests.

Clan politics is predominantly characterized by particularistic ties; informal clan networks rather than formal political institutions are the key arena of political deals and contestation. Formal institutions matter little because informal ties and bargains shape political and economic outcomes

The system of clan politics is an ideal type. The extent to which clan politics pervade the political system varies from country to country. Elements of clan politics are present in the US political system (the Kennedy clan, the Bush clan), but to a far lesser extent than in Central Asia. There is variation in the extent to which the communal bonds of clan members are fictive, and variations in the level of analysis (village, mahalla, central state). In Somalia, blood ties play a formative role in the political system. In Uzbekistan the networks are based on blood, friendship and mahalla ties. These informal networks are far from static.

Such informal networks should not always be viewed as clientelism, or necessarily damaging to the political and institutional environment. In crisis situations, informal ties can play a self-help role.

Clans in Central Asia, argued the speaker, are the root of real power, and the theatre of real politics.

A non-individualistic social structure heavily rooted in familial, clan, tribal lineages, was common to the Middle East, Asia and Africa prior to the development of modern nation states in the 20<sup>th</sup> century. The pre-modern social structure was able to sustain itself prior to the modern nation states which emerged in the region for the first time only in the 1920s, and far more clearly in 1991.

The Soviet era led to fundamental changes in the social structure and clan formation in Central Asia. Soviet law and norms pushed clans underground, making them illegal networks. Soviet rule, through sedentarization, collectivization and the *propiska* (internal passport) system, broke up traditional community structures and profoundly altered economic and social systems. Clans were viewed by the Soviets as pre-modern, and they successfully pursued a transformative social policy to break down large traditional tribal structures. At the same time, however, the economy of shortages in the Soviet Union made informal networks essential. These were very common in the RSFSR as well, where the economy of favours and informal connections was known as *blat*. Clans were transformed in the Soviet period into networks of opposition. Informal networks became entrenched under Brezhnev, with an increase in corruption. Gorbachev's efforts to crack down led to resentment and elite opposition.

In the post-Soviet era, clan politics has become an essential part of the balancing of interests and groups. Clan affiliation or loyalty becomes the key to political and economic appointments. This can involve clan pacting, balancing, or monopoly and exclusion.

The system of clan politics shapes choices about, or the implementation of, economic policy. Vested interests (state monopolies, custom agencies, tax agencies, regulatory agencies) oppose liberalization, competition, and a transition to a free market.

Clan politics formally and informally block political reform; clan appointments undermine transparency and accountability. Key elements of political reform and democracy are the casualties of informal networks, which block impartial justice and the rule of law. Elections are also undermined. Families can't afford to lose power, so the basic methods for assuring democratic accountability are lost. National agendas are about "families" short-term priorities. Informality shapes choices in directions which do not necessarily coincide with those of the state.

Foreign policy is seen by clan elites (the President and the vested clan interests that surround him) in terms of self-preservation. This leads to strong opposition to economic regionalism, which could foster liberalization and competition, but support for security regionalism if it bolsters the regime/clans in power. Thus, despite the World Bank and EBRD recommendations to increase political and economic regional cooperation, the only regional bodies which have received the support of the elites in power are organizations like CSTO and SCO.

The dominance of clan structures leads to systemic corruption. Appointments are dominated by clan patronage and nepotism; control of state assets becomes personalized, asset-stripping is widespread as the elite have little confidence in property rights or the stability of the political system. Expectations of state fragility lead to the bankrupting of the state and short-term political thinking. This leads to a loss of government/state legitimacy; elections become a mechanism for keeping power. The state increasingly fails to provide basic services. The marginalization of civic and political organizations not organized on a clan basis leads to widening disaffection and discontent. The speaker argued this could lead to growing inter-clan conflict between those included and excluded from political control and economic resources. The weakness of the state carries the risk of collapse. Even inter-clan pacts to retain political control are vulnerable when resources decline. The Tulip Revolution in Kyrgyzstan was evidence of this. A fall in government revenue forced Askar Akayev to cut off patronage to some groupings, provoking opposition and mafia-style violence. Across the region, the fear of instability (stoked by colour revolutions) has pushed leaders to rely increasingly on the security forces to manage the opposition and control the wider population.

The speaker concluded by examining drivers of a possible transformation of clan politics in Central Asia. It was argued that the worst-case scenario for the states of Central Asia is that clan-based political rivalry descends into open conflict, as in Somalia. The best possible scenario would be something akin to Italy.

The first possible driver of change is money. Money together with clan ties, or in place of clan ties, could create new forms of networks. We see the 'mafiosization' of clans. This can either lead to the creation of clan-like mafia networks, in which clan-ties are used to engage in mafia-style politics and the elimination of political opposition and business rivals. Alternatively, money and business interests can start to cut across clan ties, diminishing the importance of kin.

Generational change and the globalization of technology and information exchange could lead to the appearance of a younger generation which finds jobs, obtains information and forms values based on information not controlled by elites.

Labour migration is a mechanism of mobility and access to money that undermines the rigidity of local-level/rural clan ties that were reinforced by collectivization. It undermines the traditional authority within kinship

communities, since younger members (not aksakals [male elders]) have a more critical financial role in the familial networks. Finally, labour mobility and foreign capital weakens the state's patronage networks and informal mechanisms of control.

Market reform and liberalization creates a mechanism for mobility, money and competition which undermines local level clan networks of control over resources and access. It undermines traditional hierarchies of authority, since networks of younger people (business entrepreneurs) have a more critical financial role in the familial networks. Liberalization also creates independent bases of power which weaken the state's monopoly on clan patronage. The best progress in this area has been made in Kazakhstan, and the worst in Kyrgyzstan and Tajikistan. In Kazakhstan, economic transition has created a small but growing class of entrepreneurs who hold resources and ideas independent of the state.

Social structures and identities are not stagnant in Central Asia. The capacity for transformation exists; the turmoil of the past eighteen years may be bringing changes which the current elites will struggle to control.

## Discussion

The first question from the floor addressed the true level of power of leaders in Central Asia – are they all-powerful autocrats, as conventionally assumed, or rather figureheads which exist to balance the interests of a broader elite? It was argued that the leaders of Central Asia have been extremely adept at balancing political forces in such a way as to allow them to strip assets without entirely bankrupting the state. In many ways it is surprising these political systems have managed to endure for so long. Leaders such as Uzbek President Islam Karimov have increasingly relied on force to manage internal elites, not just the weak democratic opposition. This is either an indication of power, or a sign of the absence of elite or popular legitimacy, and increasing desperation.

In response to a question about the relative importance of blood ties in the informal networks of Central Asia, the speaker argued that historically kinship was one of the most important binding factors of society. During the Soviet period, with the dissolution of traditional tribal/nomadic groupings, we see the emergence of more localistic networks, which were only partly kin based. In Kyrgyzstan kinship was relatively more important. In other areas, mahalla ties

gained in significance. In the post-Soviet era, we are increasingly observing the emergence of First Families, often with extensive networks controlling the key political positions. Emomalii Rahmon is an exception as he is younger. For these families, Heydar Aliev's transfer of power to his son, Ilham, through the illusion of a democratic election is seen as a model for the region. The transfer was orderly, stability was maintained, protest was minimal and the international community raised no objections. Central Asia is moving towards a trend of clans becoming First Families/political dynasties.

One participant questioned the context in which we study Central Asian politics. What models should we compare these countries to? An idealised Western state? Within the context of the Middle East and Asia, the politics of Central Asia and the Caspian is not at all unusual. The expert questioned the notion of First Families – extreme rivalries exist within the elite group, including between blood relations. It was argued that reform and restructuring should be emphasised over liberalisation. Progress in Uzbekistan has been slow, but it is very well thought through. The reform process is taken very seriously. In Kazakhstan, by contrast, there has been a great deal of window-dressing, but public relations have been put before substance. The participant also argued that globalisation is a double-edged sword, which will not necessarily act as a driver of reform. It also allows young intellectuals to see the shortcomings in the western states offered up as ideals.

Another expert agreed that informal networks exist to different degrees in any political system. The West is in the minority in idealising formal laws and institutions. But whilst corruption and informality exist everywhere, the scale is different. We have to ask to what extent personalistic politics dominate in different parts of the world, and whether it will be prosecuted if exposed. Central Asia is at one extreme of the scale, the idealised Western model at the other. First Families are also riven with rivalries; however, it is often the case that those who are related are not totally purged from power.

It was argued that the persistence of these informal networks has undermined democratic reforms. Such reforms are critical for the development of a more stable and just system. In terms of economic restructuring, Kazakhstan has some achievements to show. Uzbekistan has in the range of 3 million migrants abroad, Kyrgyzstan 1-2 million. Poverty levels across the region are anywhere from 40 to 60 or 70 per cent of the total population. There are constant food shortages. Such comparisons suggest that Kazakhstan must be doing something right.

One participant pointed out that Kazakhstan is not poor; there are large amounts of money available, so in some ways it is surprising that things are the way they are. As argued earlier, money usually drives countries closer to the Western ideal type. Why, then, is Kazakhstan still stuck in the current situation, where informal networks predominate?

In response, another participant argued that it is not surprising Kazakhstan has not moved further to strengthen formal institutions. The top clan has been very successful in its attempts to keep control of the country's oil wealth. As long as it continues to do so, it will be able to sustain power reasonably easily.

One questioner asked what was meant exactly by a market economy. Events in Pikalyevo, Russia (in which Prime Minister Vladimir Putin ordered Oleg Deripaska, the owner of the main factory and biggest employer, to keep the factory open and pay his workers) demonstrated that the state holds immense power, even in a nominally market economy. Is the best chance for the states of Central Asia to try to develop a market economy without any attendant political interference, or to retain some state *dirigisme*?

Another participant argued that there are clearly limitations to market reform. Any such reform is likely to take place gradually. The key is to bring the basis of economic development out of state control, so that people are not beholden to the state for their jobs and welfare. This gives people the ability to develop their own power base. Historically, as we see in East Asia, this leads to the development of a middle class with independent political interests. It is possible for countries to get stuck in an 'in-between period', but at the very least the quality of life for most citizens will improve. Russia, rather than Italy, is possibly the best-case scenario for many of these states because Europe is not next door, so transatlantic integration is not really an option.

In answer to a question on the role outsiders could have on the political development of Central Asian states, the presenter argued that whilst change is hard to achieve, particularly from outside, the West should not be resigned to the status quo. In recent years, US security interests have tended to trump democracy promotion in Uzbekistan. The lessons from the past suggest that pushing for economic reform is more likely to achieve success than pushing for political reform. The people of Central Asia should also not be resigned to the status quo, particularly in view of the dramatic decline in living standards which has occurred recently.

Another participant questioned the relationship of networks to the state. Informality does not exist separately from the state. All the actors depend on the state for legitimacy. What we see is not so much informality as a 'network state'. Does the parasitism of these networks on the state have implications for state stability? On one level informal networks dominate, but the state apparatus is also essential, if only certain aspects of it. President Nursultan Nazarbayev of Kazakhstan in particular understands the importance of the state structure and the need for domestic and international legitimacy. However, social sectors like health and education tend to be neglected. Thus informal networks tend to deform state priorities, but they do not replace them.

One participant questioned the extent to which clans are a crucial determinant of political decision-making. So many factors influence this process – institutional, legal, economic – that it is questionable whether clan networks are the cornerstone of the process. It was pointed out that there is no Uzbek word for clan. Networks are very important, but the formal aspect is also crucial.

Another participant argued against this, pointing out that, in Kyrgyzstan for example, the parliament under Kurmanbek Bakiyev is essentially a rubber stamp. Political parties exist on the model of *Edinaya Rossiya* in Russia. They are networks of patronage rather than competitive political alliances. We don't see them engage in serious debate, they don't act as a check on presidential power. Only the security forces have institutional power. Clan is a term which is used quite loosely. On a national/presidential level these are networks of corruption. On a local level, clans exist more to provide community support in the absence of a welfare state.

In answer to a question on the persistence of pre-tsarist or pre-soviet structures, it was pointed out that these countries only became nation states in the 1920s. It is not surprising that network politics still exist. Some cultural patterns from the pre-soviet period have remained fairly consistent, such as kinship and the reliance on family and communalism.

How much, it was asked, is the impoverishment of the people a deliberate move? The presenter argued that in Turkmenistan there is evidence that this was the case. Saparmurat Niyazov systematically dismantled the health and education systems despite immense oil and gas revenues. It is hard to believe this was not deliberate. Likewise in Uzbekistan, it has been decided that education programmes abroad are a threat to state stability. In Kazakhstan, Nazarbayev puts more emphasis on state-building and state structures.

## Session Two

### Country Case Studies: Kazakhstan

The speaker began by discussing the stages in the development of Kazakhstan's political system. The post-Soviet period from 1991 to 1995 saw the development of a 'pro-Western' foreign policy and democratic romanticism. At the same time, elements of the Soviet command administrative system were preserved. The population was politically engaged. There was a gradual strengthening of the president's power with a parallel reduction in the influence of other institutions and representative bodies. This took place within the context of a search for an optimal model for socio-economic and political development.

The second stage, from 1995-1999, was the period of personification of presidential power in the hands of Nazarbayev. This was characterised by the strengthening of presidential power; the final formation of a mechanism for preserving a balance of forces between influential pressure groups; the popularization of the theory of a 'special way' for Kazakhstan; the choice of an 'Asian model' of political and socio-economic development; the start of a clearly defined tension between the powers that be and the opposition.

1999-2001 was a period of temporary stabilization, characterised by rapid economic reform and growth, combined with the preservation of a conservative political system. There was a broadening of the authority and power of the president and stability within the political elite.

2001-2004 witnessed the emergence of intra-elite conflict. This was provoked by an imbalance between an open economy and a closed political system. The political elite began to split, leading to the formation of the opposing groupings and the integration and activation of the Kazakh opposition.

From 2004-2005, elites mobilized in reaction to the turnover of power in Georgia, Ukraine and Kyrgyzstan. Changes in the legal and regulatory framework were introduced aimed at strengthening state control over Kazakhstan's mass media. Regulation of the 'third sector', local and international NGOs, was increased and the party system was overhauled.

2005-2007 saw a series of unsolved murders of former high-ranking officials who had moved into opposition (such as Zamanbek Nurkadilov, Altynnek Sarsenbayev). Amendments were introduced to the Constitution, securing the status of lifelong leader of the country for the first President. The pro-presidential parties were integrated into the Nur Otan party. A monopoly of

control was established in the party political sphere. The opposition was split into several new political parties. State control of the economy increased.

Since 2007, there has been a second wave of intra-elite conflict, in part as a result of the negative consequences of the global economic and financial crisis. Divisions have appeared inside the President's family. State paternalism is increasing, and its influence on the economy is growing. The crisis has opened the way for a new partition of property through the nationalization of 'system-forming' banks, and the weakening of some interest groups. Control over the political sphere and media has increased further. The opposition has so far been unable to mobilize protest despite the country facing major economic difficulties.

The strengths of the current political system include: strong presidential power; political, interethnic and interconfessional stability; a largely loyal elite; a lack of widespread protest/opposition movement in the country; a concentration of social energy into economic development, at the expense of political reform; relative economic success and high standards of living in the regional context; a lack of major external threats; a low level of terrorist risk; Kazakhstan's international significance as a major energy exporter, which makes outside actors unwilling to criticize the leadership; high prices for energy resources. The President has also carefully balanced his commitments to different social groups.

The weaknesses of the current system include: a lack of certainty regarding the mechanisms of succession; the presence of a large number of competing elite groupings, demanding complex deals and balancing to maintain stability; uncertainty in a situation where the President loses his role as the main arbitrator within the political elite; the inflexibility of the vertical of power, which limits institutional capacity; the influence of shadow and informal networks over public policy decisions, and thus the dominance of narrow group interests over the state/national interests; the inefficiency and corruption of the public administration; limited opportunities for political participation or policy innovation; an imbalance between economic development and political conservatism; a lack of real economic or political competition; the lack of a clear strategy amongst the ruling elite and opposition for further political development; a high level of turn-over of staff in state structures, encouraging short-termism and asset-stripping; a fall in the 'social lift' for entering the elite – all low-hanging fruit have been taken; an increase in social stratification along three dimensions: power, business, society; complacency of the elite, an inability to understand social and economic problems facing the population; the possible emergence of new areas of conflict (interethnic

tension, migration etc); the failure of administrative reforms, which have only increased the control of the President over the elite; the issue of continuity of power; excessive bureaucracy and corruption; uneven distribution of incomes; a lack of state legitimacy; the destabilizing impact of influential elite groupings; the underdeveloped judicial system; the high level of unpredictability and non-transparency of the political decision-taking process; an increase in state intervention into the economy; unconstructive mutual relations between those in power and the opposition.

The presenter argued that authoritarian modernization, along the lines of the 'Asian tigers', still has some mileage in Kazakhstan. External and internal conditions do not present major obstacles to the country's sustainable development at present. The President still has time to establish an efficient mechanism to assure a smooth succession.

However, certain threats to stability exist. If Nazarbayev should fail to ensure a smooth succession process, this will increase the level of political risk. The system is heavily centralized, and cannot easily devolve power to local institutions. The dominant role of the political elite in business is also an obstacle to growth. Political paternalism is slowly but surely evolving into economic paternalism and state control. Social inequality is on the rise, and there has been a catastrophic reduction in the level of human capital. In the event of a full-scale political crisis in the country, there is a risk of foreign intervention.

The presenter argued that Kazakhstan's political system is undermining the country's competitiveness and hindering economic development. What is needed is not simply the liberalisation of certain segments of the economy, but reform of the entire state system.

The speaker argued that there are two important questions to be answered regarding Kazakhstan's political system. The first is what kind of authoritarian system exists – does it rely on mobilization? Is it fundamentally conservative (aimed at maintaining the status quo and defending the current elite division of assets), or is it able and interested in pursuing reforms for the sake of modernization? Following on from this, to what extent is the excessive concentration of power in the hands of the President authoritarianism for the sake of authoritarianism, or authoritarianism for the sake of modernization? The speaker argued that the current system encourages a dangerous short-termism in the Kazakh elite.

There is a lack of certainty regarding the succession. Neither the dynastic model (as in Azerbaijan), nor the appointed successor approach (Russia) are

ideal for the Kazakh elite. The fact that the presidency is the only functioning institution creates danger and uncertainty for the elite at the point of succession. It is probable that the President will lose his role as the main arbitrator between competing elite interests in the future.

An optimal variant for Kazakhstan's development would involve political modernization, the appearance of new channels for recruitment to the political elite, an increase in the quantity and quality of existing points of access to the political decision-making process; a clear separation of business and political interests; electoral contests for regional officials; the development of the middle-class; increased globalization, which would increase the requirements on the state management; delineation of a mechanism for the maintenance of a continuity of power; diversification of the economy.

A more negative outcome would involve the preservation of the current closed political system, maintenance of an oligarchic form of corporativism, increasing involvement of the political elite in business, a new confrontation between the business elite and the bureaucracy/state nomenclatura; a limited number of points of access to the political decision-making process; limited pool of recruitment to the elite, often based on patronage networks, maintenance of a raw materials-based economy.

### **Tajikistan and Kyrgyzstan**

Turning to Tajikistan and Kyrgyzstan, the second speaker began by arguing that ideology, identity and ideas are all extremely important in the decision-making process. In order to understand decision-making in Central Asia, one has to understand the context in which it is conducted.

The first context is the state-business-crime nexus which exists in these countries. The term failed state is sometimes used in relation to them. The speaker rejected this terminology – the 'failure' it describes is the failure to meet externally derived ideas of what a state should be. In comparison to this ideal type, we have not a failed state but a weak state in which networks are parasitic on the state. Opportunistic political actors use their position for private gain, producing a densely spun web of state, private and organized criminal interests. Thus it is hard to determine whether the high-profile assassinations in Kyrgyzstan relate to economic interests and competition, or because the victim was deemed a threat to political power. There has been an increased involvement of organized crime in government.

The second context is geographic. Tajikistan and Kyrgyzstan are small, land-locked states which lack hydrocarbon resources. They do have other mineral reserves, but these are harder to extract. They are places of transit, including for narcotics. The border with China is not a determining aspect of their geography, but the presence of a powerful neighbour to the east does influence certain geopolitical ideas. Geopolitical thinking in these countries has conceptualized the states of Central Asia as a 'heartland' which is both politically significant and vulnerable. The notion of a contemporary 'Great Game' is also part of the local political discourse. There is an assumption in these states that they will be the object of foreign competition. This leads to a foreign policy approach which is 'multi-vectored'.

The third context is that these states are still in the process of building their identity.

The fourth context is conflict. Tajikistan is a post-conflict state, and Kyrgyzstan, it could be argued, is a pre-conflict state. A popular coup could lead to civil war. This does not mean that there is an inevitable propensity for conflict in Kyrgyzstan and Tajikistan, but the methods for managing conflict are far from efficient. In Tajikistan, the accent is on maintaining stability within the population. The elite seek to avoid open dispute rather than confronting the issues which might build a lasting resolution. In Kyrgyzstan, Bakiyev has learnt the lessons from the Tulip Revolution of March 2005. He has clearly stated his willingness to use the security forces to keep order and maintain power.

The presenter argued that there are four main objects of Kyrgyz and Tajik decision-making. The first of these is power and profit through networks. Networks have a public and private dimension, and both legal and illegal aspects. The networks demand public displays of loyalty, however key decisions are taken out of the public eye.

The second object is the prestige of the regime and government. This is why the regimes invest so much time in what Roy Allison has called 'virtual regionalism'. This is also why operations such as the SCO 'Peace Mission 2007' are so significant for the region's leaders, who attach great importance to their membership in such clubs.

The third object is the maintenance of sovereignty and the management of an international interface. The aim is to create the aura of sovereignty even when sometimes this is actually lacking (such as when Akayev made an emergency request to Putin for support in 2005). In 2004 Rahmon asked Putin for security guarantees. There is a sense that outside support is required, but the

image of autonomy must be maintained. In the absence of a welfare state in both countries, the social ministries depend on the large pool of international migrants providing remittances. Sovereignty must therefore be maintained in a way that keeps external resources coming in.

The final object is regime stability, which is a goal in itself. Elites use security forces and/or co-option to maintain stability.

The controversy over the future of the US airbase at Manas in Kyrgyzstan illustrates the interplay of these contexts and objectives. The first decision was that the base should close on 18 August 2009. Subsequently, there were rumours that the move would be re-examined after the July presidential elections. The inconsistency in the decision-making process is comprehensible within the contexts described above. Kyrgyzstan aims for a multivector foreign-policy, and seeks to maintain good relations with China, Russia and the US. At the same time, Russia is a key regional partner, and the Kyrgyz elite find it easier to deal with it than the US. There is also the motivation of power and profit – both the US and Russia have offered aid or loan packages to swing decisions their way. The prestige of hosting a US airbase is also significant. Finally, there is the paradoxical position on sovereignty – the policy fluctuations emphasize the independence of decision-making, even as the agreement to host foreign troops impinges on the country's sovereignty.

The expert also cited the Talco scandal in Tajikistan. Control of the aluminium plant was wrestled from the former owner Avaz Nazarov in 2004. In 2005, the Tajik government took Nazarov to court in London alleging mismanagement. Nazarov then counter-sued. The government continued to pursue the case despite a series of increasingly embarrassing disclosures. In 2008, the decision was finally taken to cease court action, but not before the Tajik government had paid out immense sums in legal fees and an out-of-court settlement, damaged its relations with Deripaska, and brought public embarrassment on the Tajik government and the new management of the aluminium plant.

Within the context described above, however, the decision is understandable. The plant had been run as a classic racketeering scheme, in which aluminium was sold at a loss to middlemen for the power and profit of a network of individuals. For the regime, however, stability is also important, and it believed that the Talco plant was a key object in the civil war and essential to maintain political control. Having taken control of the plant, the government eventually decided to settle with the old management because it was aware

of the risks to sovereignty and prestige. It needed to assuage international donors and maintain multiple credit lines.

In the end, the loss to the regime from the failed court case was manageable. No liability was admitted by either side and the political damage was not sufficient to cause the IMF to discontinue its loans to the state.

The apparent inconsistency of policy formation is thus explicable within the framework of the overlapping, and at times conflicting, contexts and objectives which inform policy-making. Decisions are not forced externally, they are made within the contexts outlined above. The governments in Tajikistan and Kyrgyzstan are, in fact, extremely adept at managing their relations with the various international actors.

## Discussion

One expert argued that Nazarbayev has given a great deal of thought to the succession. However it takes place, it will not make a great deal of difference to the political scene. Personalities are not essential, the system will show continuity. If Kassym-Zhomart Tokayev or Karim Masimov were in power, not much would change externally. It is unlikely that there will be bloodshed – one only has to look at Turkmenistan. When Niyazov died, the UNHCR panicked, expecting a humanitarian crisis which never came.

Another specialist argued that Nazarbayev is facing big challenges. If he nominates a strong successor, even informally, it could put him in a weaker position. Nazarbayev has talked about a collective successor; it's not clear what this means. It may simply be part of his tactic of mystification. The Russian model of succession (Putin-Medvedev) is not easy to translate to Kazakhstan. Putin enjoyed strong support from state structures. In Kazakhstan, the secret service and the army are not effective, they are not a credible source of legitimacy. Nazarbayev is losing control over the elites. He has established groups such as the Civil Alliance to keep the elites within four or five structures. The anti-corruption drive is not really aimed at cleaning up politics and business – it is simply a way to reassert control at the top.

Responding to a question about the so-called 'Asian model of modernization', the speaker argued that an 'Asian' model is an extremely attractive thesis to the elite. The discourse mostly focuses on Turkey, South Korea and China, with Singapore increasingly drawing attention. When talking of Singapore, they emphasize that one can have economic growth without democracy. This ignores the sharply differing levels of corruption in the two countries.

Asked about the possibility of external interference in the event of an internal crisis in Kazakhstan, it was argued that this is highly unlikely to be of a military character. Political interference could increase, however, through pressure groups. Russia and China already have a strong hold in the Kazakh economy. Russia is interested in expanding its presence in areas such as the nuclear sphere. In the event of domestic political conflict, Russia and China will seek to protect their allies within the establishment in order to safeguard their interests. There is a significant article in the CSTO treaty, which commits the signatories to protect each other in case of aggression from a third party. But Kazakhstan is also in the SCO; this could create interesting geopolitical contradictions.

One expert argued that Nazarbayev has handled Kazakhstan's external relations extremely skillfully. He has managed to attract huge foreign investment. The oil industry is 80 per cent foreign owned, in part because the oil is extremely difficult to extract, so foreign expertise is crucial.

Discussing the prospects for Kazakhstan's membership of the WTO, one specialist explained that officially Kazakhstan hopes to enter next year. However, the financial and economic crisis has set everything back. Has Kyrgyzstan profited much from the WTO? It has established itself as a significant transit route for Chinese goods. A lot of businessmen are drawn from Kazakhstan to Kyrgyzstan because it is one of the main logistical centres. Trade aside, there have not been major economic developments in the country.

The economic crisis has thrown up serious problems for the elite in Kazakhstan. State debt is only \$2.5bn, but corporate debt is \$143bn. Meanwhile, external markets are closed, and foreign investors are less inclined to move into Kazakhstan. Social protest at the moment is not very pronounced, and the elite has a lot of experience of dividing it.

### **Session 3**

#### **Uzbekistan**

The first speaker, examining political processes in Uzbekistan, began by arguing that clan politics, whilst important, are not the whole story. A number of other factors are also important in shaping political decision-making. These include institutional structures, social factors, legal factors, economic

pressures, information sources and bureaucratic systems. Social relations play a very significant role in political decision-making. The term 'clan' has a clear negative connotation, but there can be positive aspects to these networks. For example, many people view the mahalla as essentially positive. It provides a feeling of security. Some aspects of social relations between elites could be described as 'clannish', but not all of them. If you are in government and someone asks you to do something for you, it is extremely hard to say no. The collectivist culture, enforced by 70 years of socialism, has enforced this sense of obligation to others.

The speaker pointed out that Islam is also a significant factor. Islam has a cultural value for many people, it is not simply a religion. There are also important regional factors. This can create problems for central government. Strong regional identities can hold back central decision-making. Maintaining a regional balance amongst the cadres is extremely important for central government.

It was argued that contrary to some external perceptions, Uzbekistan has some strong functioning institutions. The Constitution provides for a strong institutional framework for decision-making. Decisions cannot be made overnight, they have to be coordinated between ministries. Even the President is bound to follow institutional rules.

The strongest institution in the country is the presidency. In the past few years there has been some delegation of power to the cabinet of ministers. This has been limited so far but it is continuing. Parliament also plays a role. The four parties in parliament are extremely weak but they try to play at least some role in political life.

The presenter argued that identity politics play an important part in the decision-making process. A realist model cannot be used to explain the behaviour of the main actors. Many of the political processes are aimed at constructing a state identity. Uzbekistan is trying to develop an ideology for the post-communist period.

There are huge weaknesses in the judicial system, but a legal system and constitutional order does exist. Judges in Uzbekistan have recently been given more power. There have been improvements in habeas corpus.

When there are weak institutions, as is the case in Uzbekistan, the individual/subjective impact is highly significant. There is a firm belief that those who occupy high positions have greater expertise. There is huge respect for authority. Uzbekistan has a well established hierarchical system.

The influence of the cadre system or nomenclatura is a very difficult field for Western scholars. Sophisticated models for the development of cadres have been devised. There are injustices, and networks play a role in the recruitment of officials, but there is also a great deal of competition for places. Certain criteria exist all in circumstances – a higher education is essential, for example. In general, those with a higher education are very much in demand. Singapore University, Milan Technical Institute and Westminster University all have representation in Uzbekistan.

Informational factors also play a role. Uzbekistan is part of the informational society. Even if government tries to block websites, proxies exist and it is very easy to circumvent any censorship of the internet. Uzbekistan is one of the leading countries in terms of mobile phone penetration. There is a growing demand for expert opinion and informed academic analysis in government. There is a huge demand for analytical materials and detailed statistics. The government is eager to develop think-tanks and independent sources of advice and opinion. It is not simply a case of top-down control; there is a desire for communication from the base to the top. The weakest point in Uzbekistan's political system is the secret channels which undercut political debate.

## **Turkmenistan**

Discussing the system of power in Turkmenistan, the presenter began by emphasizing that it has a very closed political culture. The information we receive comes either from highly controlled domestic media outlets, insiders who provide leaks which are extremely hard to verify, and investors who are drawn into certain political circles and get a chance to observe some of its workings. We must be very careful, therefore, in making judgements about the nature of the political system and decision-making process. Turkmen themselves disagree on the nature of the regime and the real structures of power.

There are several issues which should be considered. First, formal politics matter, otherwise the elite would not invest so much time and expense in building up bureaucracies, institutions and the appearance of observing constitutional norms. Second, Turkmen do use the term 'clan' to describe the networks of power. Informal networks of power exist, but these can be trumped by expertise. Third, power radiates from the centre. This is particularly true in relation to oil and gas. Power becomes weaker as ties to the centre grow weaker.

President Gurbanguly Berdymuhammedov is a risk-averse individual. He dislikes making decisions, so the execution of policy is done by others, which allows him to subsequently distance himself from it if he chooses or it appears to be a failure.

Institutions give a textual fabric to identity politics, especially when allied with the ideology of 'positive neutrality'. Turkmenistan adopted its constitution extremely fast after the fall of Communism. It was ready in May 1992. In 2008, the Peoples Council was dissolved, and the formal prerogatives of the Council shifted to the President. The Majilis was also expanded. There is no evidence that the Majilis fulfils any more of a role than the technical scrutiny of documentation and legislation. Constitutional revisions made since 1992 have been conducted with some care. There has been a big attempt to make the succession process appear legal to the outside world.

It is clear that Berdymuhammedov continues to rotate ministers. This was initially done to build authority. It has now become his chief modus operandi, as a substitute for bottom-up accountability.

Berdymuhammedov has positioned himself as a Niyazov-lite. He is less idiosyncratic but also less charismatic. The sanctions for those who fall from grace are less extreme than under the previous regime.

Berdymuhammedov has built up a clan/tribe network around him. He has packed his cabinet with close contacts and family. The relationship between clan needs and national needs is complex. Clan politics operate differently in Turkmenistan from other countries in Central Asia. Real kinship is more significant due to the lower mobility and small population size. As a result, the networks which exist are less dynamic. Clan allegiance can be altered, such as through marriage, but only over a long period of time. If you move from Ashgabat to Charjew, you can change clan loyalty, but only over the course of 10 to 20 years, or by marriage.

In theory, clan profiles can be reconstituted by economic activity. However the lack of a strong industrial base means clan relations are less likely to be destabilised. Can entrepreneurs in a region join a clan, or start their own – and is it appropriate to call this a clan? Is clan membership all of a piece, or do they have their own hierarchies. Are you more of a member of a clan if you are closer to the head?

Networks in Turkmenistan are dynamic and do shift over time. Networks are not the only field of political interaction. Key individuals within the elite do not conform to these networks. Tachberdy Tagiev is outside the Ashgabat loop. Rashid Meredov is half-Azeri, whilst figures such as Viktor Khramov and

Aleksandr Zhadan are evidence that expertise can supercede family interests. Likewise, Tagiev is an extremely valuable figure because he knows the energy industry inside-out.

The networks of power in Turkmenistan are not monolithic. Individuals further away from Berdymammedov are more likely to face stricture. Those in his close circle are essentially above the law.

It is clear that decision-making is personalised in Turkmenistan. The President's assent or dissent is necessary for any action. There is a clear logic to this. The gas trade is the only card Turkmenistan has to play in the international arena. It would be extremely negligent if the President was not involved in this. Key advisors do not necessarily determine the top questions, but they have an interest in where assets are stripped and money skimmed from gas sales.

There is a clear role for outsiders in these networks. There is a residual institutional memory of Soviet networks which has facilitated key deals with Russia and Kazakhstan, brokered in the industrial sector and intelligence agencies. These trans-national networks have now extended to the Middle East and Europe.

## Discussion

It was argued that one should not underestimate regime durability in this region. The states function reasonably well, the leaderships have succeeded in keeping the countries together. A lot of attention is often paid to the perils of transition in autocracies. However, they have shown themselves capable of transferring power quite peacefully. Asked about the succession plan for Uzbekistan, one expert argued that there is no open discussion about this. There are several possible scenarios, and the situation is far from clear.

Another specialist argued that the elites in Turkmenistan will only alter foreign policy if they absolutely have to. They don't have many cards to play, and they are aware of this. If they wreck their relationships with key energy players they have nothing else to fall back on. Hence Turkmenistan's caution with gas exports to Europe which would bypass Russia.

Another specialist pointed out that it is very easy to criticise these regimes. We forget that in 1990/1991, people expected war to erupt across Central Asia. Whatever the disadvantages of the current systems, they have maintained peace and stability, despite many challenges, including a weakly formed sense of national identity and regional instability to the south.

It was argued that foreign policy in Uzbekistan is conditioned by key objective factors: geography, resources and location. The elite believe strongly that they must maintain a balance of power in Central Asia. They don't want the return of an 'older brother' watching over their affairs – they need good relations with all their neighbours.

In response to a question about trans-national networks forming with other countries in Asia, such as Singapore, it was argued that Asia is attractive as it offers a strategic, no nonsense investment model which appeals to the elite.

#### **Panel Four: Great Game or Great Gamble? Investing in Central Asia**

The speaker opened by explaining the economic context within which the countries of Central Asia have been operating. Commodity volatility has a big impact. The big capital flows to the region in the late nineties and early part of the 2000s appear to have slackened. European banks have withdrawn their assets. We have seen the closure of markets for bonds, leveraged loans and structured assets. Uncertainty over inflation and monetary policy in the region is discouraging investment in local assets. However, one should not lose sight of the progress all the countries in the region have made. All the countries of the region have exceeded 1989 levels of GDP with the exception of Tajikistan.

The credit crunch hit Kazakhstan first in the region, and then spread to other Central Asian states. Kazakh banks were excessively reliant on foreign debt funding which fuelled soaring credit growth and a real estate boom. The global liquidity crisis led to banks being cut off from Eurobonds and syndicated loans as redemptions fall due. In response, banks curtailed their lending and increased lending rates. Bank funding became more expensive or unavailable for many Kazakh companies and individual borrowers. The government, however, was solvent, thanks to massive oil revenues. Its commitment and support to construction and the financial sector is not in doubt. Transmission of the credit crisis to smaller countries in the region took place through Kazakh bank stakes, lower regional growth and the fall in workers' remittances (the crisis in Russia was also significant here).

Kazakhstan was an early victim because it is a commodity-based, undiversified emerging market. Its banking system has expanded very rapidly, based on cheap foreign wholesale funding. 'Real' investment opportunities were limited; there was a real-estate bubble and high private external debt

(mainly in foreign currency). The offsetting strength of Kazakhstan was its extremely low public debt.

So far, few *direct* effects of the global crisis have been felt in the rest of Central Asia. With limited international financial integration in most Central Asian countries, there have been few direct effects from scarce international liquidity. Selected sectors in Tajikistan and Kyrgyzstan have been hit by the slowdown in lending by Kazakh bank subsidiaries. This has been somewhat compensated by non-bank FI lending and IFI support. There is a risk that international microfinance funds and foreign commercial banks may provide less micro loan financing, but this has yet to materialise.

Despite the credit crunch, Kazakhstan is still the regional hub. The country faces a relatively difficult year ahead. Growth is projected to be less than 5 per cent. Careful management of short-term problems is needed, such as providing liquidity to solvent banks and construction companies. Openness to FDI in the financial sector is the best way to ensure that the Kazakh banking system gets reconnected to the global financial system. The medium-term macroeconomic outlook is positive, as oil production volumes will go up further.

The long-term economic challenges facing the country include establishing viable non-oil sectors, stemming industrial policy intervention and fostering diversification, as well as increasing energy efficiency.

Turning to Turkmenistan, the speaker argued that the country is economically disconnected and underrated by investors. The effects of the crisis have been limited – gas sales are the main source of revenue, which are based on long-term contracts. The history of isolation and social decline will take some time to overcome. However, substantial reforms are underway. Moves have been made to unify the exchange rate, reduce domestic subsidies and open the country to foreign investment. Turkmenistan possesses the second largest gas reserves in the region, although it will require huge investment to develop them fully.

Turkmenistan's recent reforms include a private sector development programme, a new foreign investment law inaugurated in March 2008, unification of the exchange rate, and a new Constitution which was adopted in October 2008. There has also been consultation on IMF Article IV (obligations regarding exchange mechanisms), a redenomination of the Manat on 31 December 2008, banking reforms, a new forex regime has been introduced, the introduction of International Financial Reporting Standards, the establishment of correspondent banking, SWIFT and trade finance.

The unification of the exchange rate has had a significant impact. In the past, companies operating in Turkmenistan had no access to foreign currency. This led to situations where companies working on infrastructure projects would be forced to run a textile company simply to raise foreign capital. The unification of the currency has resolved these issues. Establishing and running businesses in Turkmenistan is now less dependent on favours and informal agreements.

The presenter argued that one can see small steps towards a more favourable environment for foreign investors. Ideally, the private sector would control 70 per cent of the market in Turkmenistan. At present it is around 40 per cent. Raising this figure will need foreign investment.

The EBRD is supporting eight projects in Turkmenistan with a net business volume of €115.6 million, a total project value of €547.7 million and a private sector share of 82 per cent.

Transport costs and customs delays are two of the key impediments to product market development in Turkmenistan. Cooperation on infrastructure and customs cooperation is very limited. Turkmenistan is not currently involved in the Central Asia Regional Economic Cooperation (CAREC) programme. It is very hard for foreign investors to have an integrated business strategy for the region. Currently, the only significant investment in infrastructure is coming from China. Chinese investment in infrastructure is much needed, although this carries some risks of undermining governance standards in areas such as public procurement.

The second speaker argued that there is a tendency to bundle all the Central Asian states together from the investment point of view. This is misleading. The countries fall at very different points on the spectrum of ethical, political and economic scales. Each country claims it is unique and possesses a unique development route. They are very cautious about their sovereignty, and the way their national identity is developed. The only international organization they are all members of is the United Nations. The historic rivalry between Kazakhstan and Uzbekistan is very important in defining the region. All the countries jealously watch the development of their neighbours and the practices they employ.

One common factor in the region is the leaders' unquestioning striving for power; the power of money, and lifelong political control. They all wish to be seen as fathers of the nation. Aliiev is seen as a model by all of them.

Kazakhstan, despite publicly claiming to be a democratic market economy, is no different. Investment success in Kazakhstan depends on attracting the

President's direct interest. Even smaller investments are not necessarily safe without his patronage. Capital investors in Kazakhstan, who are not directly involved in the country, are particularly vulnerable. Those involved in non-natural resource sectors have to work hard to build up the President's interest. His interests have evolved over time in line with a hierarchy of perceived national needs, from food and security downwards. In the first years of independence there was a great interest in acquiring money and the blandishments of office such as luxury palaces. After personal wealth had been built up, Nazarbayev's interest turned to building up his personal prestige, and the prestige of his office. International recognition and interaction became important. Investors have had to become more imaginative to catch the President's eye. The chances of investors from India and Spain are lower than the US and China, because the latter are seen as more prestigious.

The expert argued that the President is quite happy with the investors currently present in Kazakhstan, and there is no perception that investment needs to be greatly expanded or diversified. It was argued that there is no contract in Kazakhstan which cannot be taken back. Even oil contracts could be revoked. Companies in Kazakhstan are operating in a highly corrupt environment. It is possible that the authorities will respond to the economic crisis by taking a more zero-sum approach to investors.

What is necessary to be a successful investor in Kazakhstan? You should ideally be from a G8 country with solid political connections, and willing to put up money to grease palms where necessary. You have to be imaginative, to find a way to fire the imagination of the President and his retinue. Now is clearly not the most favourable time to invest in the country, and the speaker made it clear he would avoid doing so at the present time.

## Discussion

One expert asked why, if the President of Kazakhstan had filled his pockets, there was still a rationale for making the investment climate difficult? From the point of view of identity politics there is little value.

The President could have sent a signal down that corruption must stop. This signal never came. The presenter argued that the elites all feared that they could lose everything, and wanted to continue to grab as much as possible.

Discussing corruption, one participant asserted that it was not coincidental that the Spanish company Repsol won a big investment concession after Spain voted for Kazakhstan's OSCE chairmanship for 2010. It was argued, however, that the oil and gas sectors are somewhat autonomous. Funding comes from the sector itself. There is no 100 per cent guarantee for the foreign investor, including the EBRD, that corrupt practices or bad governance will not crop up. The EBRD has its own integrity unit which examines any potential partner closely and monitors each project. There is a project rejection rate of around 50 per cent. There have been occasions where it has subsequently become clear that bribes were paid. One way to minimize corruption is to avoid interaction with the state sector. The EBRD tries to get 80-90 per cent cooperation with the private sector (compared with 70 per cent in Europe). It avoids the mining industry because it is very hard to find companies with a high level of integrity.

Asked about the investment strategy of BTA, which unusually for a non-Russian bank in the CIS had large holdings abroad, the presenter argued that there was no political agenda behind it. BTA was intended to be privatized in a fixed auction where the winner and price were established beforehand. All of a sudden, other players got involved and a real competition developed. Thus from day one the bank had to try to secure its position by building up a presence abroad. The strategy paid back – in 2006 BTA became the first pan-CIS bank. It was able to refinance in Russia in the early days of the crisis.

Asked about the investment situation in Uzbekistan, an expert argued that the EBRD is much less optimistic about the climate there. The EBRD has had to withdraw from some projects recently owing to allegations of the use of child labour which turned out to be true. It is not currently planning further investment. The expert expressed scepticism about the privatization process. Another expert argued that it doesn't matter how the EBRD views Uzbekistan, other investors are happy to fill the void from places like Iran. Trade and economic links with Asia are growing steadily.

On the prospects of the Russian Rouble becoming a regional reserve currency, neither presenter saw this as a viable possibility in the next ten to twenty years. There may, however, be a certain degree of de-dollarization in the region.