U.S. Policy in Central Asia: Balancing Priorities (Part II)

Testimony prepared for the

Committee on International Relations

Hearing on
The Middle East and Central Asia

April 26, 2006

Prepared by

Martha Brill Olcott
Senior Associate, Carnegie Endowment for International Peace

I wish to thank you for the opportunity to testify before you today.

The states of Central Asia are of increasing strategic importance for the U.S., yet unfortunately the opportunities that U.S. policy-makers have for influencing developments in this region are relatively circumscribed. This is partly a product of how much (or more frankly, how little) foreign assistance is spent in the region, which makes the threat of withholding funds a rather empty one. But even a decision to "throw money" at the region's problems would not turn most of these countries into viable democracies with market-based economies any time soon. Some of these states have little need for outside economic assistance, and their leaders perceive even less need for outside advice, while others will eschew assistance rather than accept what they see as unwanted "foreign meddling."

This gives U.S. policy-makers little choice but to take a long-term perspective, trying to maximize the likelihood that these countries will eventually develop into democracies. But US policy makers need to do so cognizant that developments in the short and medium term may create serious security challenges for the citizens of these countries, neighboring states, and perhaps, directly or indirectly, for the U.S. as well.

A Lack of Shared Values

For all their invocations of democracy, Central Asia's leaders share few values with U.S. leaders. None of these countries have much chance to develop into western-style participatory democracies until a new generation, one educated and socialized since the collapse of communism, takes power. When this occurs there is at least some chance

that the ruling elite in these countries (and I am using this term quite broadly to include both the governing class and the political opposition), will have a value system largely shared with its U.S., European, and Japanese counterparts.

In today's Central Asia, it would still be a mistake to romanticize the prospect of a "color" revolution. A peaceful (or non-peaceful) popularly supported effort at regime change in the region would not necessarily produce a democratic outcome. A year after the virtually bloodless ouster of Kyrgyzstan's President Askar Akayev, the country appears more fragmented and potentially unstable than before. Moreover the long-term survival of civil society institutions is still not assured.

It is also not clear whether the west has gained or lost levers with which to influence the development of civil society. It is critical for the long-term success of the Central Asian states that young people get the educational and media access necessary for full participation in their own country and the broader global community. The political preconditions must be put in place to allow this more cosmopolitan generation to enter political life. Without this there will never be a ruling elite that is competent in the democratic sense, or the opposition necessary to check it.

There is a "which came first, the chicken or the egg" dilemma here. How do you get non-democratic leaders to establish the preconditions for democratic development? In this light, too, the post-revolutionary situation is quite disappointing in Kyrgyzstan. President Kurmanbek Bakiyev seems even less eager to join "the community of Western democratic nations" than was his predecessor Askar Akayev during the "honeymoon period" of his presidency, when Akayev was delighted with flattering depictions of himself as the Kyrgyz Thomas Jefferson. Possibly this is because President Bakiyev

holds a pessimistic view with regard to the political and social cleavages in his country, and its short and medium term economic prospects, which do not correspond to popular expectations. This means Bakiyev will seek any real or even illusory sources of investment in his country's economy, asking unreasonably high rent for use of his airbase and trying to entice Russian firms into making multi-billion dollar investments in hydroelectric power plants in his country (instead of competing projects in Tajikistan).

Given the Kremlin's expectations about the need for---or even the appropriateness of ---democratic reform, the Central Asian states are being given the opportunity to sign up for a very different kind of "group think" than that toward which the U.S. and the European Union are urging them. This is a big change from the early 1990s, when at least on political institution building Russian and Western messages converged, with Yeltsin even attacking his own parliament in 1993 to defend democracy.

Now that the messages are so divergent, the states of the region are being given a clear choice: accept U.S. and European norms (effectively the formal standards of the OSCE) and you can participate as respected members of these and various other European and international forums. If not, join the category of "other" states, at best fair-weather friends with a kind of "second-class" status, and at worst pariah or rogue states.

Obviously, the U.S. would like to see all of the states in the region aspire to the first category. This is all the more true because absent their desire U. S. and European leaders have little hope of seeing positive short or medium term political change in any of these countries.

The drive for greater international acceptance provides some reason for optimism that the political situation in Kazakhstan may continue to improve, given how much

President Nursultan Nazarbayev wants his country to chair the OSCE in 2009. This decision will be made in late 2006, which explains why the Kazakh leader has promised further opening of the political process through the expanded introduction of local elected governments and continued judicial reform. But the picture is still far from a one-sided one. The 2005 presidential elections were the most competitive the region has seen, and Nazarbayev's 91 percent vote did reflect his overwhelming popularity. But they also featured irregularities at the ballot-box, and more importantly an unequal playing field during the electoral campaign. This further handicapped an opposition already crippled by years of the president dominating the country's media, much of which is owned by his family members. Nazarbayev lost further political credibility in western capitals when one of the country's most prominent opposition figures---a younger figure from the ruling elite---was brutally murdered under mysterious circumstances that involved members of the internal security forces. The murder compounded the widespread perception that the opposition does not enjoy anything close to a level playing field either with regard to access to the media or in public life.

The political drama in Kazakhstan is creating complex choices for Western leaders. There is naturally the desire to flatter the president of a country with vast oil and gas reserves, which are being developed in part by companies from one's own country. Indeed the best way to get Kazakhstan over the threshold of political institution building necessary to sustain democratic development might well be to pretend it has accomplished more than it really has. For if Kazakhstan's OSCE bid is turned down, then Nazarbayev might decide it is much easier to abandon democratic reform, a position that will find support from the Shanghai Cooperation Organization (which consists of

Russia, China, Kyrgyzstan, Tajikistan, and Uzbekistan). In an ideal world U.S. and European policy-makers would somehow convince Nazarbayev to delay Kazakhstan's request to chair the OSCE until 2012, the end of his current term as president, giving him the chance of achieving his "crowning glory" and allowing the west to remain consistent with its own democratic values. But the Kazakh president, with eager potential energy clients to the north and east, may decide that he need not accept virtually guaranteed, but deferred, gratification.

The choice will be a tough one, especially because there has been a reluctance to treat even the most "badly behaved" of the Central Asian countries as pariah states. In the case of Uzbekistan, Washington, in my opinion correctly, decided on a more cautious strategy in the post-Andijian environment than did the E.U. member states. And one of the payoffs was that Uzbek nuclear materials were moved to Russia, where they are subject to closer international supervision, under U.S. auspices (though the U.S. got no credit for this from the Uzbek media).

International concern over Uzbek government human rights violations in Andijian has also led to a diminished focus on developments in energy-rich Turkmenistan. Here the situation is dire. Government policies are compromising the long-term prospects for political institution-building. The state has all but destroyed the national educational system and introduced restrictions on foreign contact and foreign study by its citizens. Given the demographically small size of the Turkmen nation, and how few people are actually able to live or study outside the country, the prospects of a national revival in post-Niyazov Turkmenistan are not very good. Fortunately the Uzbeks have not taken

similar steps to irrevocably destroy the human capital of the next generation, which allows for hope, but not optimism.

Energy Security

Central Asian energy reserves are vast, but we shouldn't exaggerate the role they are likely to play in meeting U.S. and Western needs.

As you are all aware, transport is the greatest challenge. No matter how enlightened, U.S. policy will only have a marginal effect on minimizing Russian or Chinese presence in the region, as geography (even without the addition of geopolitical pressure) gives each more leverage. This is especially true for Kazakhstan.

At a state-to-state level the Russians have often tried to be tough negotiators with the Kazakhs, slowing the initial construction of the CPC pipeline by several years. While the US and Azerbaijan are lobbying hard for Kazakhstan to commit large volumes of oil to the Baku-Tbilisi-Ceyhan (BTC) pipeline, Russia continues to make shipping higher volumes of oil across its territory problematic. Permission to expand CPC's capacity was slow in coming and Transneft remains a tough negotiator during talks on transit fees and increased volume for Kazakh oil through its transit network.

The ultimate profitability of the BTC pipeline, which cost over $2 billion to build and will require further expansion, may depend upon the volume of Kazakh oil on this route. Kazakhstan will commit some reserves to the BTC pipeline starting in 2008, but remains reluctant to further antagonize Russia by agreeing to the U.S.-proposed TransCaspian oil and gas pipelines. These would substantially increase the volume of Kazakh oil, which currently goes by freighter across the Caspian, that could be transported through BTC. Citing ecological concerns, Russia remains vociferously

opposed to the proposed undersea routes. Given that off-shore development of Caspian reserves is going on without the existence of an agreed-upon legal regime among the five littoral states (Russia, Iran, Turkmenistan, Azerbaijan and Kazakhstan), and the continued economic interdependence of the post-Soviet states, there is a good deal of prudence behind Kazakhstan's actions.

For much the same reason, Kazmunaigaz, the Kazakh state oil company, is eager to engage in projects with Russian firms, including Rosneft and Lukoil. The private Kazakh oil company Nelson Resources (rumored to have been partly held by members of the Nazarbayev family) was sold to Lukoil in 2005. Nazarbayev's family remains active in Kazakhstan's oil industry, and his son-in-law Timur Kulibayev is a frequent point of contact for Russian oilmen.

Cooperation with China does allow Kazakhstan new transit options. The Chinese National Petroleum Company (CNPC) owns a controlling interest in Aktobemunaigaz, a production company in Western Kazakhstan. But Chinese ambitions vis-à-vis Kazakhstan extend a lot further. In 2003 China National Offshore Oil Corporation (CNOOC) and China Petroleum and Chemical Corporation (Sinopec) made a bid to buy British Gas' share of Kazakhstan's massive off-shore Kashagan deposit, a bid that was blocked by the consortia partners. In the end the partners were forced to allow Kazakhstan's own national company (Kazmunaigaz) to acquire half the BG stake and absorbed the other half themselves. CNPC did manage to acquire the small North Buzachi field, and then finally in 2005 CNPC purchased the assets of PetroKazakhstan, giving them the assets from the Kumkol field and shared control of the Shymkent refinery (with Kazmunaigaz). The Chinese have made a major financial commitment to

securing oil from Kazakhstan, paying over $4 billion for PetroKazakhstan, and planning a pipeline which will run from Atyrau through Kenkiyak, on to Kumkol, Atasu, and then Alashankou on the Kazakh-Chinese border. By late 2005 two stretches were already operational and construction on the most expensive link, from Kenkiyak to Kumkol, had been authorized.

China's rise need not be at Russia's expense, but might well contribute to Moscow, Astana and Beijing's mutual advantage. Should Russia move forward with plans for a new pipeline to bring Western Siberian oil to China, there may well be extra capacity for Kazakh oil to move north to add supply to this route as well. But these developments would reduce the potential for some Kazakh oil fields, as yet undeveloped, to send exports westward. This need not be bad for the U.S. or Europe, for a China able to meet its energy needs might be a much less dangerous global neighbor.

China is going to compete head on with Russia for access to Turkmenistan's gas reserves. The Chinese have contracted to begin moving up to 30 bcm of Turkmen gas annually in 2009, through a pipeline which will go through Kazakhstan, linking up with the existing Bukhara-Tashkent-Almaty pipeline and extending it to the border as Alashankou. The Chinese are also negotiating to get Kazakh gas shipped along this route, or through a new pipeline from Ishim in Russia, to Astana, through Karaganda and eventually to Alashankou. It is hard to believe that the Chinese would support both options simultaneously, and Russia will lobby hard for the second route to be built first, as most industry analysts do not believe that Turkmenistan will have enough production to support contract obligations to both Russia and China.

For several of these land-locked states selling through Russia is not such a bad deal. This is particularly true for Uzbekistan, which will be trading bad-paying customers in Central Asia for limited access to European markets. The Uzbeks and Russians negotiated a $1 billion, 35 year production sharing agreement to develop a number of very promising Uzbek deposits in 2004, including the Shakhpakhty field in the Ust Urt peninsula. The list of projects was expanded in 2005, when among others the Kandym-Khauzuk-Shady gas field in central Uzbekistan was added[1]. While Uzbek president Islam Karimov has tried to depict the turn to Russia as an energy investor as part of his country's strategic reorientation, in reality there had been only limited Western investment in Uzbekistan's oil and gas sector since independence.

As one Uzbek diplomat said, given the existing transit challenges, no other investors would put money into Uzbekistan's gas industry, let alone put these projects on a developmental fast track, save Russia. But Moscow's interest in Uzbekistan's gas seems to have sparked increased Chinese interest as well, with the China National Petroleum Company (CNPC) signing a $600 million agreement with Uzbekneftegaz for some 23 smaller oil fields in the Bukhara area. Very little information has been made public about this agreement, but the location of these fields (near the main gas pipeline) suggests that Beijing is hopeful that there will be large amounts of associated gas available from these projects.

Investing in Uzbekistan makes good sense for Gazprom, for they are able to share investment costs, and get virtually assured supply of gas, presuming Uzbekistan's internal security risks can continue to be managed successfully. Although Uzbekistan's gas reserves are smaller than those of Turkmenistan, it is still a larger gas producer, and

despite some scandals involving the country's gas industry, it is far more professionally run than that of Turkmenistan, where Niyazov's cadre policy has led to revolving-door management.

While Turkmenistan's transport options may change in a post-Niyazov world, should a more market oriented and less erratic leader succeed him, Uzbekistan's transport options will not change. The challenge will be to manage the threat of internal strife. The current agreements between the Uzbeks and Gazprom effectively bind Moscow to the Karimov regime, or to its designated successor. Much as Niyazov and his family are rumored to benefit from his arrangements with Russia, it is possible there has been some personal gain for the Uzbek ruling family in transport agreements with Russia. The president's daughter, Gulnara Karimova, was responsible for much of the gas negotiation when she was posted to the Uzbek Embassy in Moscow.

Niyazov's Turkmenistan has been a difficult friend for Moscow (the question of just how difficult provokes speculation). The complicated cash and barter deals through which Moscow purchased Turkmen gas almost certainly benefited Niyazov and his family, as they appear to have been "silent" and sometimes not-so-silent partners (as with secondary trade of bartered items) in trade transactions. Moscow will aggressively seek to insure that Niyazov's successor remains bound to Russia's gas industry as well.

While the situation may change in post-Niyazov Turkmenistan, and certainly the U.S. should be an alert bystander in any succession struggle to help facilitate positive developments, for now Turkmenistan is an unstable potential partner for the U.S. and an unattractive partner for major western oil and gas concerns. This is the major reason why the trans-Afghan pipeline project has proved difficult to realize, and would also

complicate any plans to develop a Trans-Caspian gas pipeline, even if Niyazov were to sign on with promised supply for the project.

Russia's ambitions with relationship to hydroelectric power are much like those in gas---sopping up Central Asia's excess capacity creates new opportunities for using Russia's reserves more profitability. The old Soviet grid system creates the potential for Central Asian energy to be used in nearby Russia, allowing excess Russian capacity to be exported to more lucrative markets. But maximizing investment in Central Asia's enormous hydroelectric sector will not make good economic sense until RAO UES further consolidates its position within the Russian market.

But Russia does not enjoy the same potential transport monopoly on Central Asia's hydroelectric resources that it has on gas. This is an area where U.S. firms have a great interest as well, but they are going to have to work hard to secure control of the region's most attractive projects. China is eager to buy up any and all surplus electric power. The Russians are interested in supplying this market, as are the Kazakhs, who are planning a joint project with China to develop a $4 billion coal-fired power plant at Ekibastuz, near the Russian-Chinese border. Kyrgyzstan also is interested in selling hydroelectric power to China. In both the Kazakh and Kyrgyz cases the hope is that such purchases might make China less aggressive about diverting upstream water that traditionally flowed into Central Asia. Tajikistan is attracted by the Chinese market, and even more by the prospect of exporting surplus energy to Afghanistan, and then on to the large markets in India and Pakistan. Such a project is particularly interesting to U.S. authorities. It would have a developmental impact in Afghanistan and would lead Tajikistan to diversify its resource ownership base beyond Russia.

"Foreign" interest, such as that of Iran, or of the U.S. company A.E.S., has sparked Russian activity in this sector, but in general Moscow has been able to play a waiting game, signing long-term contracts with signing bonuses that are partly based on debt forgiveness, and require minimal short term investment on the Russian side.

They have also done a good job of getting the Kyrgyz and Tajiks to compete for Russian investment priority, which because of Oleg Deripaska's purchase of hydro-electric dependent Turajunzade Aluminum works has gone largely to Tajikistan. In fact, Deripaska has created a dominating position for himself in Tajikistan, through his primary and secondary (largely in the Tajik service sector) investments. This does not preclude the U.S. developing an increasing position in Tajikistan's economy, but given Russia's multiple levers, the challenge is a difficult one.

Drugs and the Criminalization of the Economies of the Region

One of the by-products of the U.S.-led international campaign in Afghanistan is the increase in opium and heroin coming through Central Asia in the last five years. This in turn has helped foster the criminalization of these economies. Two models are prevalent in the region, criminal groups insinuating themselves into the government, and governments facilitating criminal trade directly. This has had a more deleterious effect in some countries, like Tajikistan, and increasingly in Kyrgyzstan, than in others. In both these countries criminal groups have been able to suborn state authorities. The degree to which this has occurred in Kyrgyzstan has become shockingly apparent over the past year or so.

We can only speculate on the scale of official collusion in the second set of states, for as narcotics interdiction programs have become more successful in Tajikistan (and

they have, to credit of U.S. and U.N. sponsored efforts) the trade has moved more into Uzbekistan and Turkmenistan, where it appears that government officials may be actively facilitating this trade. But as this is a conclusion based on rumor and innuendo, it is hard to know how much to credit it, or how high up such collusion (or active involvement) may go. It is well known that terrorist and criminal groups have used the drug trade to facilitate their activities, but governments in the region have the same capacity and much greater ease in doing this. Moreover, the drug trade creates a ready source of money to facilitate patronage networks.

The Threat of Extremist Ideologies and the Crisis of Competence

This is an extremely important topic, and as I have written on it extensively, and testified on it in previous congressional hearings, I will make only relatively brief comment on it now, summarizing these earlier findings.

As is true in so many areas of the world, there are religiously-inspired terrorist groups targeting the governments of this region, groups which consider themselves part of the global jihadist network. Some of these are derivative groups of the Islamic Movement of Uzbekistan (IMU) whose formal remnants remain tied to al Qaeda. Others are more locally based and have sprung up in the post-September 11 world. These groups may or may not have external financial support, but more importantly, the scale of their activity is such that local business (or political) interests are capable of supporting them. Their potential for successful mobilization is not the result of their financial means, but of popular dissatisfaction.

A much larger and more problematic group is Hizb' ut-Tahrir (HT), a clandestine (and throughout the region an illegal) radical Islamic organization, the avowed intention

of which is to restore an Islamic caliphate. The very nature of its goal means the organization is revolutionary, and though it formally condones the use of violence (at least at the current stage), it is unclear whether its members---as individuals---are attracted to the use of violence to achieve their goals. The message of the group (at least as it is manifested in some of its writings in Central Asia) is often highly intolerant of western values, and some publications have been explicitly anti-Semitic (in addition to anti-Israeli).

But in many parts of Central Asia HT has become a major social force among the younger generation, and in parts of southern Kyrgyzstan it operates openly. It doesn't seem to me that HT is capable of overthrowing the state anywhere in the region, but its social potential could be used by those eager to oust a regime (in Kyrgyzstan, in Uzbekistan, and maybe at some point in the future in Tajikistan; in Kazakhstan its potential is more locally confined, and in Turkmenistan it does not seem to be in evidence to the same degree). The presence of HT throughout the region has worked to the advantage of the Islamic establishment more generally, and this is particularly true in Uzbekistan, where the degree of religious ferment within the clergy loyal to the regime has gone relatively unnoticed by outsiders. Islam remains one of the few bases of legitimacy for the Uzbek regime (be it that of Karimov or of a successor), and, as I have argued elsewhere, Uzbekistan's secular leaders do not seem to understand the potential political dynamism of what they see as a largely conservative and traditional social force. Central Asia's religious revival, although more radical in content than western observers initially anticipated, need not be antithetical to U.S. interests, although in a number of countries it will slow (and possibly even preclude) the development of secular

democracies. But it need not keep them from developing into more participatory societies, with free market economies. The greatest danger is not Islam, or the nature of the region's Islamic revival, but how the leaders of these countries will orient themselves to these developments. On this question, as on so many others, Central Asia's leaders may be undone by their own incompetence and vanity.

Some Suggestions

My testimony has focused on U.S. expectations more than U.S. policy, and created a sense of how relatively limited U.S. options may be. But in closing I would like to offer suggestions on some positive steps that we might take to enhance the chance of good outcomes in the future. I urge that we continue to provide foreign assistance to all of the governments of the region (regardless of their human rights records) for programs that the U.S. believes important for the development of civil societies and transparent economies in the region. Our "sticks" have been ineffective, so let us focus on the "carrots." The U.S. should not support the mechanisms of repression, but it should support projects that address:

- Legal transparency in the economy, including laws protecting property, and the mechanisms of executing and securing foreign investment.
- Legal training, including legal education, and the training and retraining of judges, according to curricula that meet western standards
- English language training, with particular attention to rural areas
- Science and technology training in primary and secondary schools, with attention to rural areas

- Enhancing scholarship opportunities so that students from Central Asia can pursue higher education in the U.S.
- Increased attention to employment opportunities after degree completion, through local government supported employment “agencies” in country, and enhanced opportunities for employment in the U.S. for those from closed societies in the region.