

POLITICAL ECONOMY OF KYRGYZSTAN'S DOMESTIC (IN) STABILITY

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Abstract:

Kyrgyzstan experienced sets of violent uprisings especially since 2005. In 2010, it was overwhelmed by ethnic violence between the Kyrgyz majority and the Uzbek minority groups, squarely because of miscalculated and misguided policy directions from the trans-national funding agencies, say for instance, the *International Monetary Fund* (IMF) and *World Trade Organisation* (WTO). Abrupt initiative of transition from the centuries old tradition of collectivist land tenure stewardship and management, to a privatized and individualized land ownership system, forged social dislocation and political anger in an otherwise traditionally well-balanced and peaceful society. Paradoxically, there was no urgent need for the Kyrgyz government to carry out such agricultural reforms at the behest of an agency that had really no knowledge of local conditions.

In this paper, the author examines changes in land tenures and their cascading impact on the country's profile. It further argues that the key variable in Kyrgyzstan's social and political disruption has been unwise, abrupt, and rushed state policies of agricultural land distribution and privatization.

Keywords:

Kyrgyzstan, Land Reforms, Transition, Ethnic Conflicts, Political Economy.

Introduction:

The world of international relations is getting increasingly defined by renewed competition for material and natural resources. The world population, and the economic output are growing, while the reserves of oil, gas, fresh water, arable land, potash, timber, fish, etc. are diminishing. Countries with significant natural resources would do well in coming years if they build state capacities, protect their natural resources, and use them judiciously for their national growth and development. Such countries have to create institutions of economic stewardship or management to provide for their own survival, and basic standards of living for their population.

Kyrgyz Republic, a post-Soviet Central Asian state, is an example of misguided policies and lost opportunities during the last two decades. The country has experienced sets of violent uprisings, especially in 2005 and 2010, and still many other times during the last two decades. Consequently, it has been hailed as a laboratory for tests of democratization and liberalization of its economic system.

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The Spring-Summer 2010 Kyrgyz crisis, which saw the government of Kurmanbek Bakiyev overthrown in April and thousands of Uzbeks massacred in June was, in fact, the second instalment in mass violent protests that commenced before 5 years from now. The 24 March, 2005 Tulip Revolution was triggered by the most pressing problems that Kyrgyzstan developed since the dissolution of the Soviet Union. In 2005, the Akayev administration was wound up through a popular uprising, emanating from socio-economic hardships and political oppression. The post-2005 Kyrgyz leadership led by President Bakiyev, inherited a crisis-ridden economic order which fuelled violent outbursts in the country's history. The Kyrgyz economy did improve under the Bakiyev administration, as it is vindicated by the available data. However, such improvement and progress was actually the offshoot of rapidly rising gold prices in the world markets. Obviously, such an improvement can be attributed to the Kumtor gold mining project, a Kyrgyz-Canadian joint venture, rather than to any significant country-wide progress in terms of socio-economic or human resource development. Wealth generated by a mining enterprise did not benefit majority of country's population to any significant degree, and once again in 2010, the Kyrgyz Republic went through a violent change of leadership, followed by the largest inter-ethnic violence in recent memory.

Kyrgyzstan's stability and future survival does not solely depend on policies of the leadership. As a small and landlocked country, it also depends upon cooperation with its neighbourhood: the Russian Federation, China, Uzbekistan, and Kazakhstan. The country's relationship with powerful international organizations such as the *International Monetary Fund* (IMF), and the *World Trade Organization* (WTO) has no less significance for its future economic prospects, and political stability. Of these external actors, Uzbekistan has shown relative patience and restraint; China and Kazakhstan good neighbourly policies within its traditional and imperial paradigms and the Russian Federation exploited Kyrgyz troubles to its advantage. However, the most significant damage to the country economic and political profile has been done by the IMF and WTO, and their misguided consultancy with no or little regard to the local conditions. These trans-national funding agencies demanded radical reforms in agricultural and industries as a pre-requisite for loan advancement, which later brought the country face to face with unprecedented ethnic clashes in its northern and southern regions, and more dramatically, between the Kyrgyz majority and the Uzbek minority of the South.

Political volatility and instability is nothing new in Central Asia, but ignoring Kyrgyzstan's variety of intricate problems related to its failing state system, may not auger well for the whole region. Kyrgyzstan's challenges continue to be intensified by economic hardships and deprivation of its population. Unless the new Kyrgyz leadership under President Almazbek Atambayev, takes caution and shows due diligence in policy making, till then the country can not be styled or modelled after the actual IMF and WTO norms and the political priorities set forth by Moscow: instead the country would go through many such incidents as its offshoot.

Twenty Years of Independence:

Prior to its independence in 1992, Kyrgyzstan mainly exported gold, uranium, steel, mercury, cotton, tobacco, wool, meat, hydropower, and some machinery.¹ In the Soviet Union, Kyrgyzstan had near monopoly on the production of antimony, which just like uranium is no longer produced in significant amounts.² As a supplier of most raw materials and primary goods to the rest of the Soviet Union, Kyrgyzstan did not inherit sustainable economic infrastructure after the dissolution of the Soviet Union. Transportation routes were not well developed in the country, making it difficult to get goods goin and out. No doubt, the Soviets introduced several manufacturing units in the land locked country of Kyrgyzstan including the manufacturing of torpedoes for the navy (in a mountainous and landlocked country!)and car doors (for vehicle built thousands of kilometres away) for light vehicles, and also a sugar refining enterprise, which imported raw sugar from Cuba, for production and distribution of sugar across the Soviet Union.³

However, the collapse of the Soviet Union left such industries inoperational or ineffective for the withdrawal of Soviet subsidies on its production and cash transfers there against from Moscow: by 1991 the cash transfers, accounted for 12.2 per cent of GDP, and 35.2 per cent of the country's budget – about half of the latter being price subsidies. As a result, the Kyrgyz government budget fell from 38.5 per cent of GDP in 1990 to 12.7 per cent in 1992.⁴ In the 1990s, Kyrgyzstan ran large trade deficits, with the trade balance changing in 2000-2001, when the country showed small surpluses. According to the World Bank, Kyrgyzstan's

¹ Marek Dabrowski and Rafal Antczak, "Economic Reforms in Kyrgyzstan," *Russian and East European Finance and Trade*, 31(6), November-December 1995, 6.

² "Country Profile: Kyrgyzstan," *Library of Congress – Federal Research Division*, November 2005, 7, <http://lcweb2.loc.gov/frd/cs/profiles/Kyrgyzstan.pdf>.

³ *Russian and East European Finance and Trade*, 7.

⁴ *Russian and East European Finance and Trade*, 19.

GDP in 2010 was about US\$ 4.6 billion, which was a significant improvement as compared to minimum of 1.2 billion in 1999.⁵

Kyrgyzstan emerged from the Soviet Union under the leadership of Askar Akayev, who won country's first ever contested election in 1990. He did not belong to the old Bolshevik guard, and, as such, enjoyed wide popular support. In the final years of the Soviet regime, with newly found openness and free speech, the country enjoyed higher standards of living – the UN Development Program rated Kyrgyzstan 26 out of 173 by their Human Development Index.⁶ Currently, the country ranks 126th out of 187 evaluated by the UN.⁷

The new Kyrgyz leadership was enthusiastic about market reforms, and soon the country became a laboratory for policy recommendations issued by the Washington consensus institutions. Globalization was the name of the new economic scene, and free market liberalization dominated the economic debate. In 1998, Kyrgyzstan became the first post-Soviet country to join the World Trade Organization (WTO), which was hailed by the international community as a major breakthrough in country's economic history in the second half of the 1990s. However, by 1995, Kyrgyzstan's Gross Domestic Product declined by 45 per cent from its 1991 level.⁸ Amazingly, in the same year, the *International Monetary Fund* (IMF) ranked Kyrgyzstan fourth among former Soviet republics (behind the Baltic countries) in the pace of economic reforms. In 1995, one third of the country's enterprises, some 120 of them were idle, and in 2004, the industry contributed only 13 per cent of the GDP.⁹ According to the national Statistics Committee of Kyrgyzstan, the country's industrial output between January and October 2005 decreased by 9 per cent from the corresponding period of 2004.¹⁰ In the second half of the past decade, the rise in the global demand for gold and other resources helped improve Kyrgyzstan's economic data. By January 2012, the ratio of the industrial output increased dramatically and accounted for

⁵ Data and Statistics for Kyrgyz Republic, The World Bank, December 2011, web.worldbank.org.

⁶ Armin Bauer, Nina Boschmann, David Green, and Kathleen Kuehnast, *A Generation at Risk: Children in the Central Asian Republics of Kazakhstan and Kyrgyzstan*, Manila, Asian Development Bank, 1998, 4.

⁷ Human Development Index (HDI) – 2011 Rankings, Human Development Reports <http://hdr.undp.org/en/statistics/>.

⁸ Richard Pomfret and Kathryn Anderson, *Economic Development Strategies in Central Asia since 1991*, Oxford: Blackwell Publishers, 2001, 191.

⁹ "Country Profile: Kyrgyzstan," 7.

¹⁰ "Social Economic Situation of the Kyrgyz Republic," the National Statistics Committee of the Kyrgyz Republic, <http://www.stat.kg/Eng/Home/Social.html>.

almost 69 per cent of GDP;¹¹ this, however, had to do with skyrocketing of gold prices, and the immense production of the Kumtor gold mining enterprise in the country. As a result, Kyrgyzstan's industry has become primarily dependent upon one natural resource, the gold.

Kyrgyzstan's quick economic decline was, of course, initially occasioned by the dissolution of the Soviet Union. Previously its exports were destined to Russia and other union republics. In the 1990s, many economic links among the former Soviet states were severed, and Kyrgyzstan was no exception. No former Soviet state, except perhaps the Baltic States, was properly prepared for the transition from planned to free market economy. However, just like other Soviet states, Kyrgyzstan emerged from the Soviet Union with certain advantages, such as a high literacy rate, well-educated middle class, functional economic base, and welfare state institutions. However, the economic reforms of the 1990s, advocated and guided by the IMF, diminished these obvious advantages, and brought the country face to face with economic and political crisis of severe nature.

The 1990s was dominated by the neoliberal economic doctrine, and the newly independent former Soviet states responded such recipes market and economic restructuring. Such powerful international financial institutions as the IMF and the World Bank mandated the country to adhere to globally standardized doctrinaleconomic principles as the only medium of a healthy socio-economic transformation.¹² But unluckily, such organizations paid no attention to the well being of the population in their client states, and made no attempts to create institutional and legal framework for market reforms and dissolution of state-held monopolies or state-run enterprises.¹³

Kyrgyzstan's austere macroeconomic reforms in 1993 were made even harder after speedy reforms and privatization in the banking sector. Out of nothing, credit markets, currency auctions and treasury bond markets were also created.¹⁴ In the same year, the Russian/Soviet *ruble* was dropped and the new Kyrgyz currency, the *som* was introduced. Soon after that in 1994, the government removed control mechanisms over such products as food and fuel, as well as on export controls and controls over profit margins. Dropping of controls immediately created

¹¹ "Osnovniepokazatelisotsialno-ekonomicheskogorazvitiyaKyrgyzskoiRespubliki v ianvare 2012 g," The National Statistics Committee of the Kyrgyz Republic, <http://www.stat.kg/rus1/express.pdf>.

¹² For more on the IMF and its agenda, see Joseph E. Stiglitz, *Globalization and Its Discontents*, New York: W. W. Norton & Company, 2003.

¹³ Joseph E. Stiglitz, *Globalization and Its Discontents*, 73-78.

¹⁴ Dabrowski and Antczak, *Russian and East European Finance and Trade*, 25.

huge problems for the general population, and contributed to dramatic poverty growth in the country. The value of the *som* fell, prices for the most basic products skyrocketed, and even food became too expensive for many.

From the very beginning of its independence, Kyrgyzstan displayed an orientation toward a more liberal and free society than any of its neighbours in the region. Its leadership under President Akayev trusted policy recommendations and advice it received from international bodies and readily embraced neoliberal economic reforms. President Bakiyev simply followed and continued the previously established economic vision. The country's political instability, its impoverished population, the rise of nationalistic militancy, the March 2005 Tulip revolution, and mass violence of spring and summer of 2010, bear direct results of those reforms.

Financing Kyrgyzstan's Transition:

As the USSR collapsed towards closing 1991, the authorities in Bishkek found themselves in need for political and economic advice and guidance. International economic and financial organizations naturally filled the gap, and Kyrgyzstan's dependency on international financial organizations dates back to early 1992, when a half of its seventeen per cent budget deficit was covered by international sources.¹⁵ By 2002, net financing from foreign donors reached US \$539 million – one third of its GDP. In 2001, its external debt was about US \$1.7 billion,¹⁶ and reached \$2 billion by the end of 2005.¹⁷ In other words, in 2005 Kyrgyzstan's external debt equalled the country's GDP.¹⁸ In following years, the external debt as a percentage of GDP declined: by the end of 2011, the foreign debt comprised only 54 per cent of GDP.¹⁹ At the same time, the country has continued to experience rising levels of poverty and brain drain.

¹⁵ Marin Spechler, *Free Trade, Free Markets: Central Asia on the Edge of Globalization*, New York: M. E. Sharpe, Inc. 2004, 71.

¹⁶ *Free Trade, Free Markets: Central Asia on the Edge of Globalization*.

¹⁷ Kunduz Jenkins, "The Kyrgyz Revolution: One Step Ahead or Two Steps Back?," *Central Asia – Caucasus Analyst*, September 21 2005, http://www.cacianalyst.org/view_article.php?articleid=3663.

¹⁸ Spechler, 71. According to the Purchasing Power Parity (PPP) method, Kyrgyzstan's GDP is US \$8.5 billion, *The CIA World Factbook 2005*, <http://www.cia.gov/cia/publications/factbook/>. However, the PPP estimates warrant questions about economic proficiency of a country that is marred by political, financial, legal and institutional shortfalls.

¹⁹ "The foreign debt of Kyrgyzstan to be 54 per cent of GDP by the end of 2011," *24 News Agency*, <http://eng.24.kg/politic/2011/12/16/22088.html>.

In January 2005, the average monthly wage was estimated at US \$54.9,²⁰ and by 2011, it was slightly above 8 thousand *soms* (about \$170).²¹ In 2004, the minimum pension was US \$5.10 a month (which was 12 per cent of the average wage of \$42.50 in that year),²² and by 2010, it grew slightly at \$12.4, with the subsistence level estimated at \$75.2.²³ By 2003 estimates, about 50 per cent of the population lived below the poverty line; this figure was about 80 per cent in the southern regions.²⁴ It declined by 2010 at 33.7 percent of the population, with almost 75% of the poor residing in rural areas.²⁵

Poverty is especially acute in rural areas, where the average income is less than US \$1 a day.²⁶ Since 1992, secondary school enrolment figures steadily declined for the reason that children need to work to support their families, and for those who attend school, education is disrupted in winter months due to lack of power for heat.²⁷ According to the Food and Agriculture Association of the UN, 14% of Kyrgyz lacked food security in 2011,²⁸ and the same is expected to grow still worse in the coming days.²⁹ Country's public health declined. Previously rare diseases such as typhoid and tuberculosis have become common.³⁰ Many medical doctors and other professionals have left the country since 1992, and have left behind a huge shortage of trained professionals.³¹

In 1998, the WTO accepted Kyrgyzstan as a member not because of its strong economic performance, but for very pragmatic reasons.

²⁰ Jenkins, September 21, 2005.

²¹ "In Kyrgyzstan average monthly salary is KGS8, 185," *24 News Agency*<http://eng.24.kg/business/2011/08/10/19663.html>.

²² "Country Profile: Kyrgyzstan," 6.

²³ "In Kyrgyzstan minimum pension \$12.4 at subsistence level of \$75.2," *24 News Agency*,<http://eng.24.kg/cis/2010/09/03/13408.html>.

²⁴ "In Kyrgyzstan minimum pension \$12.4 at subsistence level of \$75.2."

²⁵ "Poverty Reduction," United Nations Development Program: The Kyrgyz Republic, <http://www.undp.kg/en/what-we-do/focus-areas/poverty-reduction>.

²⁶ "Poverty Reduction," United Nations Development Program: The Kyrgyz Republic, 8.

²⁷ Mehriqi Ablezova, Gulzat Botoeva, Tolkun Jukusheva, Rachel Marcus, & Elmira Satybaldieva, "A Generation at Risk? Childhood Poverty in Kyrgyzstan," *CHIP Report No. 15*, The Childhood Poverty Research & Policy Centre, 2004, 41-46.

²⁸ "14% of Kyrgyz lack food security, UN says," *agrifeeds: Aggregated News and Events on Agriculture*, <http://www.agrifeeds.org/node/69757>.

²⁹ "UN: Food Insecurity in Kyrgyzstan to Grow Worse," World Food Program, 25 August 2010, <http://www.wfp.org/content/un-food-insecurity-kyrgyzstan-grow-worse>.

³⁰ "UN: Food Insecurity in Kyrgyzstan to Grow Worse," World Food Program, 25 August 2010, 18.

³¹ Martha Brill Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, Washington, DC, United States Institute of Peace Press, 1996, 91, 98-99.

Kyrgyzstan is a landlocked mountainous country located far away from major international transportation routes. As such, it competes with no one in terms of offering major production or distribution structures. It could not attract them from its immediate neighbourhood either. When Bishkek was invited to join the WTO, all the neighbours of Kyrgyzstan were non-WTO members, with most of them having little prospects joining this organization anytime soon. The Kyrgyz membership in this organization was motivated by political considerations: it was advantageous for leading WTO members to have a country with an open economy in a country that had an autocratic regime history in the backdrop. This step was also pre-empted by the fact that Kyrgyzstan had no chance of becoming an economic competitor to any other WTO member even if it were to implement mercantilist economic measures.

Kyrgyzstan gained nothing from its WTO membership. A small and remote mountainous country rarely gained much by dropping its traditional industrial and trade policies and opening up the economy to foreign imports. Perhaps the Kyrgyz leadership joined the WTO for political benefits rather than for calculated economic advantages. The Bakiyev administration did not turn away from the Akayev regime's policies and measures of economic austerity and privatization. These were initially imposed upon the country by the conditions of the International Monetary Fund (IMF) loans, and the rules of the WTO membership. The IMF demanded Bishkek to privatize national enterprises in a short time period, and Akayev and his associates were happy to oblige. Consequently, many major and important industrial assets ended up in the hands of the Akayev family and friends.³² The rushed privatization had negative consequences stemming from unfair competition, mismanagement, and misallocation of resources. Unsurprisingly, privatization proceeded without necessary legal and political structures in place. There was no clear vision and only ambiguous regulations in managing monopolies in the country and promoting fair economic competition.

Kyrgyzstan's Land:

Kyrgyzstan's industrial sector was marked by dramatic shifts during the last 20 years. However, the most crucial change occurred in the agricultural sector. Agricultural land is a major national asset of Kyrgyzstan. More than half of the country's land area is suitable for agriculture. In this regard, Kyrgyzstan's fares far better than the average

³² Martha Brill Olcott, *Central Asia's Second Chance*, Washington, DC: Carnegie Endowment for International Peace, 2005, 107.

data for the rest of the world.³³ At the same time, the land reforms of the 1990s created massive political and economic problems for the country, from which there seems to be no immediate relief.

The March 2005 Tulip Revolution in Jalal-Abad and Osh, the primary agricultural areas of the country's south. In June 2010, the same region was again the scene of the largest Kyrgyz-Uzbek violent clashes, and by 2011, around half of Kyrgyzstan's poor people resided in these two administrative districts accounting together for 44 per cent of the country's population.³⁴ In the same year, in Kyrgyzstan's administrative districts the poverty rates ranged from 15 to 52 per cent, with the extreme poverty rates between 2 and 17 per cent.³⁵

Agricultural land is one of the most important assets of any country's economy, especially in the times of high demand on agricultural commodities. It is crucial in building state capacities to provide for a country's survival and well-being. State capacity is inextricably linked with state power, in all its manifestations.³⁶ Misguided transition, privatization or reforms in the agricultural sector produced caused certain discomforts in the 20th century societies,³⁷ thereby fostering political instability of serious nature.³⁸ The tragedy of Kyrgyzstan's transition is that the country had neither immediate needs nor necessity for carrying out speedy reforms in agricultural sector, except that the reforms were mandated by the IMF and WTO rules as a condition for loan advancement to the said country—a necessary rationale of international organizations and their private subsidiaries to complete a “success process.” Kyrgyzstan's economic problems and political instability could have been avoided had the country embarked on gradual and calculated agricultural reforms.

Among the demands imposed by the IMF, had been privatization of agricultural land, and the abolition of agricultural and other

³³ Data and Statistics for Kyrgyz Republic, Environment.

³⁴ “The Kyrgyz Republic: Poverty Profile and Overview of Living Conditions,” Document of the World Bank, June 28 2011, 7 http://siteresources.worldbank.org/INTKYRGYZ/Resources/KG_Poverty_Profile_062811a.pdf.

³⁵ “The Kyrgyz Republic: Poverty Profile and Overview of Living Conditions,” Document of the World Bank, June 28 2011.

³⁶ Matthew Adam Kocher, “State capacity as a Conceptual Variable,” *Yale Journal of International Affairs*, 5(2), Spring/Summer 2010.

³⁷ Roy A. Andersen, Robert F. Seibert, and John G. Wagner, *Politics and Change in the Middle East: Sources of conflict and Accommodation*, Upper Saddle River, NJ, Pearson Prentice Hall, 2009, 209-245.

³⁸ Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books, 2000, 15-37.

subsidies.³⁹ Southern parts of Kyrgyzstan, where Osh and Jalal-Abad are situated, are mainly agricultural, and northern areas, where the capital city, Bishkek, is located, are more urban. Kyrgyzstan inherited uneven development between urban and rural areas, the latter being less developed (this is a permanent feature for not only post-Soviet nations, but for all developing countries). This unevenness was further entrenched by Bishkek's abolition of agricultural and transportation subsidies. For poorer residents of southern Kyrgyzstan it was no longer profitable to grow agricultural products and take them to Bishkek for trade. Withdrawal of such subsidies was essential for they kept people in southern Kyrgyzstan employed and provided them with some income. With denial of subsidies, the unemployment in southern rural areas increased, and uneven development between the country and the city became even more profound.

Further, in the 1990s, southern areas of Kyrgyzstan had more population than northern areas.⁴⁰ When land reforms were initiated in the 1990s, it was decided to divide the arable land equally among the members of the Soviet-style collective and state farms. The land share per-individual was calculated by dividing seventy-five per cent of the total arable land by the number of people eligible for the shares. Seventy-five per cent of the arable land was distributed among the eligible citizens of Kyrgyzstan who were born before January 1 1996, and the remaining twenty-five per cent was reserved for the country's Land Distribution Fund. As a result, the residents of the southern provinces ended up worse off: "the actual arable land distribution varied between 0.75 and 1.5 hectares per-capita in the northern provinces, and 0.1 and 0.3 hectares per-capita in the more populous southern provinces."⁴¹ This fact combined with the absence of agricultural subsidies relegated the southern Kyrgyzstan to the situation of economic hardship and deprivation.

Kyrgyzstan's land reforms were badly designed and implemented. There were substantial inequalities in land distribution, and corruption

³⁹ For an optimistic evaluation of the IMF reforms, see a presentation by the World Bank Resident Representative to Kyrgyzstan Michael S. V. Rathnam, "Foreign Investment During the Transition: How to Attract It, How to Make Best Use of It," at the International Conference organised on the eve of the Fifth Anniversary of the Kyrgyz Som—*Challenges to Economies in Transition: Stabilization, Growth and Governance*, Bishkek, May 27-28 1998, <http://www.imf.org/external/np/eu2/kyrgyz/pdf/rathnam.pdf>.

⁴⁰ There has been a noticeable demographic shift in Kyrgyzstan since the 1990s, whereas many people from the southern agricultural regions, migrated to urban and northern areas for employment.

⁴¹ "A Generation at Risk? Childhood Poverty in Kyrgyzstan," 13.

played its ugly hand in the process as well. However, authorities' decision to rent the Land Distribution Fund property⁴² (created with the twenty-five per cent share of the total arable land) rather than to distribute it among those who were unfairly treated by the privatization process or were born after January 1 1996, was clearly guided by the tenets of "trickle-down economics." Only those with substantial funds could afford to rent land from the reserve fund, but not those who needed it most, especially in the southern provinces. This decision further entrenched poverty in the country, and helped the alienation of the south from the north.

The Uruguay Round of negotiations, which concluded with the creation of the WTO in 1994, does not prohibit agricultural subsidies. The European Union, Japan, and the United States, for instance, subsidize heavily their agricultural sectors. However, developing countries that are members of the WTO, like Kyrgyzstan, constantly need loan guarantees from the IMF. The latter organization imposes measures of economic austerity on its clients that prohibit agricultural subsidies. Further, the IMF negotiates its deals with national government in great secrecy, and strongly discourages release of its policy recommendations to the general public. Therefore, southern residents of Kyrgyzstan could not possibly understand that their economic hardship were due to the economic reforms imposed by the IMF. Contrarily, they blamed President Akayev for the same for he was a northerner, who cared less about the south for regional bias.

The north-south divide in the country was even exacerbated by national minorities factor. Just as elsewhere in Central Asia, Kyrgyzstan has sizable portion of national minorities. In the southern provinces more than one-third of the population is composed of Uzbeks. They were mostly not integrated with the majority, and largely resided in homogenously Uzbek communities.⁴³ The fact that the southerners ended up with only 0.19 hectares of the arable land share per-capita as opposed to 0.53 per cent in the north, was also interpreted as a deliberate policy by the north dominated Akayev administration to discriminate the Uzbek minority. The southern population of Kyrgyzstan is also more religious – one more cause for the two regions to view each other suspiciously. In 1999, 2000, and 2003, Islamic insurgent managed several militant attacks in the country, and the Uzbek based or inspired groups were implicated in them for militants have been active in the southern Kyrgyzstan, mostly on Batken and Osh. The Osh area is also distinguished as a major transit

⁴² "A Generation at Risk? Childhood Poverty in Kyrgyzstan," 13-14.

⁴³ Martha Brill Olcott, *Central Asia's Second Chance*, 108.

region for narcotics and trafficking of people. Since 1992, narcotics production and consumptions grew significantly in the country. According to the 2005 estimates, Kyrgyzstan had the third highest rate of opium addiction in the world.⁴⁴

The practice of many farmers turning to subsistence crops damaged the country's exports and negatively affected national wealth. In 1990, about 50 per cent of Kyrgyzstan's exports were agricultural. After sharp reductions in the 1990s, by the early 2000s agricultural production approached 1991 levels. In the opening months of 2012, as is noted above, the industrial output accounted to almost 69% of the country's GDP, with agricultural sector maintaining only a minor role. The country's arable land depends heavily on irrigation systems (about 70 per cent).⁴⁵ Irrigation or the lack of such has been a major problem for all farmers since the break-up of the Soviet Union. The Kyrgyz government has had no industrial policy to address the questions related to the lack of irrigation or pesticides.

The obvious and clear problems in the Kyrgyz economy and finances have not deterred its foreign creditors and applauders. In 1996, Kyrgyzstan was praised as "the most liberal... for market entry and the establishment of new firms within the former USSR," and the "Switzerland of the East."⁴⁶ As it was mentioned above, the IMF never failed to praise Kyrgyz reforms. In 1995, the CSCE (now OSCE) praised the Kyrgyz parliamentary elections even these were marked by flagrant irregularities.⁴⁷ At the time, the document was essential for both Akayev administration and financial donors to secure wide political support for future loans for the country. In contrast, the October 2010 parliamentary election met with silence, even though it was much better organized and democratically conducted than Kyrgyzstan's any other previous political contest.

Conclusion:

Kyrgyzstan has gained nothing from its membership in WTO – its remote location prevented it from developing new trade partnerships beyond its traditional partners in the region.⁴⁸ It is highly unlikely that Kyrgyzstan will ever gain much from the WTO in its current form.

⁴⁴ "Country Profile: Kyrgyzstan," 15-16.

⁴⁵ "Country Profile: Kyrgyzstan," 4 & 7.

⁴⁶ Dabrowski and Antczak, 24-25.

⁴⁷ Eugene Huskey "Kyrgyzstan: the Fate of Political Liberalization," *Conflict, Cleavage, and Change in Central Asia and the Caucasus*, Ed. By Karen Dawisha and Bruce Parrot, Cambridge: Cambridge University Press, 1997, 261.

⁴⁸ "Country Profile: Kyrgyzstan," 8.

While the larger members of the WTO are busy negotiating new deals, Kyrgyzstan could not take advantage by developing its own industrial and/or trade policies. The new Kyrgyz government has to take notice of major mistakes of its predecessors, and note misguided policy priorities Kyrgyzstan received from international financial and economic organizations. It has been fashionable in the post-Soviet states to blame corruption and mismanagement for the failure or reforms. In fact, corruption and bad management practices, as negative as they are, have to be taken into account when economic reforms are devised. Recipes offered by the IMF have implied the existence of some ideal economic situation in Kyrgyzstan that can never materialize in that country or elsewhere.

Kyrgyzstan's main generator of wealth has been its gold exports. Its hydro energy resources are also very promising for future wealth generation, as well as its coal deposits and tourism industry. The country does not have to be concerned with global free trade arrangements, since it is most unlikely that Kyrgyz or any other gold will be affected by trade tariffs or non-tariff barriers – no country in history has refused gold, and the global demand for this commodity will remain high. Even if Kyrgyzstan violates WTO rules, it won't register any major set back except that the country will cease to be a member of a trans-national funding organisation. Kyrgyz gold and other metals shall always have a ready demand from a member or no-member of WTO. With rising energy prices and Kyrgyzstan's abundant hydropower and coal reserves, Bishkek should have no problems to attract investors or raising funds to supply electricity to its neighbours, especially China.

Kyrgyzstan has been a good ally to Russia, and more recently to the United States. The latter has operated an air force base in Manas since 2002, which has been crucial for the Operation Enduring Freedom in Afghanistan. To calm down Russia's anxiety, Bishkek has given the Kant air force base to Moscow. Kyrgyzstan's relations with China have improved steadily since 1992 through the border trade. Bishkek will do much better if it tries to cultivate bilateral ties with important players in Central Asia than to rely on memberships in multilateral organizations. Despite its remote location, Kyrgyzstan has much to gain in America's interest in Central Asia (provided Bishkek plays its cards right), Russia's renewed desire to stay in the region, China's rising appetite for energy, and India's expanding economic might. Turkey, Kyrgyzstan's natural ally, other Middle Eastern, Far Eastern countries and the Indian subcontinent could also help with new venues of bilateral opportunities.

Kyrgyzstan needs strong state institutions, and well designed industrial and trade policies in order to survive as a single nation, and

avoid violent unrests and disturbances motivated by misguided policies, economic hardship or nationalistic militancy. The country also needs help from major powers having vested interests in Central Asian security and stability, Russia, US, and China. Kyrgyzstan's reliance on international institutions such as the IMF and the WTO has not served the country well, and the new government in Bishkek will do better if it were to focus more on bilateral relations with important countries of the world.