

# [Current political and economic situation essay](https://assignbuster.com/current-political-economic-situation-essay/)

Political situationUzbekistan, the most populated republic in Central Asia with almost 25million in-habitants, became independent, after the collapse of the SovietUnion, on 31 August 1991. Its constitution, adopted in 1992, is ratherliberal in its statement. It introduces a Presidential system with aParliament (Oly Majlis/Supreme Council) elected by universal suffrage, enabling several parties to present candidates.

Mr Islam Karimov, former head of the Soviet Socialist Republic ofUzbekistan and head of the People’s Democratic Party (the former communistparty), was elected President of the new republic in December 1991 with 86%of the votes. In 1995 a popular referendum approved the extension ofPresident Karimov’s mandate until the year 2000. The presidential electiontook place on 9 January 2000. President Karimov was re-elected with 91. 9%of the votes cast, against only one opposition candidate. The OSCE andEuropean Union expressed a negative opinion on the way in which thiselection took place. On 27 January 2002 a nationwide referendum agreed withthe extension of the president’s constitutional term in office from five toseven years.

The Parliament elected in March 1990 was maintained in function until thegeneral election of 25 December 1994 which was attended by internationalobservers. At the time of the latter the candidates of the presidentialmajority obtained 80% of the votes. The following general electionproceeded on 5 December 1999 and gave results favorable to the rulingregime. The OSCE decided not to send an observation mission as the basiccriteria for a democratic election were not met. On 27 January 2002 thesame referendum (see above) authorized the election of a bicameralparliament for the second convocation of the parliament in December 2004.

The general elections are prepared by an Electoral Commission met by EUAmbassadors in November 2003.

Despite having taken some transitional democratic measures (oppositionparties were granted legal status, an ombudsman was appointed, etc.), andeven though President Karimov had shown an early interest in Western (andin particular European) institutional systems, it seems that over the pastfive years (since the bombing on 6 February 1999 in Tashkent) thedemocratic process in Uzbekistan has taken a step back to practicesinherited from Soviet times. Freedom of expression is today severelyrestricted in Uzbekistan, with essentially no independent press. All buttwo newspapers are government-owned and require approval from the Committeefor the Control of State Secrets for all published news articles. Moreoverthe right to organize political demonstrations is constrained.

Even if Uzbekistan has moved ahead since 11. 09. 01 with NGO registration (on4 March 2002 the first formal NGO registration by the Ministry of Justicetook place for the Independent Human Rights Organization) or trial ofpolicemen involved in the killing of prisoners, basic human rights are notapplied in Uzbekistan. Reports on alarming incidents in the prisons of thecountry (torture of detainees, death in custody) and on the increasingnumber of detentions of pious Muslims and their families who practice theirreligion outside state control, caused the EU to express deep concernsabout the deteriorating situation of human rights in Uzbekistan. In theConclusions of the second meeting of the EU-Uzbekistan Co-operation Councilwhich took place on 23 January 2001 in Brussels the Uzbek side agreed topermit representatives of the International Committee of the Red Cross(ICRC) to inspect places of detention and to concede authorization toforeign representatives, to observe trials of individuals accused of actsagainst the state and the constitutional order. The Red Cross visitsprisons on a regular basis since then and has reported that the conditionswere correct but the implementation of this agreement is difficult. The EUhas raised this point during the 4th Cooperation Council on 27 January2003.

The rise of radical Islam and drug trafficking, especially in the Ferghanavalley, are two of the major dangers facing Uzbekistan today. Fear of theIslamic fundamentalist threat (in particular in the Ferghana Valley, themost densely populated region in Central Asia, with the IMU, the IslamicMovement of Uzbekistan), regional isolation (border delimitation problemswith its neighbours Tajikistan, Turkmenistan, Kazakhstan and Kyrgyzstan, borders closed by the Uzbek authorities, borders sometimes mined as in theFerghana valley) and the emergence of organised terrorism (on 6 February1999, 6 bombs exploded in Tashkent, killing 16 and injuring 184; otherbloody events occurred throughout summer 2000 have all led to strengthenedrepression measures against opposition and enhanced security controls whichfurther isolated the country. However it seems that IMU capacity to conductterrorist activities is reduced. Most of its Afghan support has disappearedwith the fall of the Taleban and the death of its leader (Namangani) infights with American troops in early 2002. However the transformation ofIMU into a wider movement IMT (Islamic Movement of Turkestan) whichincludes Chinese Uighurs and the absence of peace settlement in Afghanistanare worrying for the Uzbek leadership.

Foreign PolicyUzbekistan’s foreign policy is shaped by recent developments in the region, in particular in two of its neighbouring countries that have experiencedcivil war (Tajikistan and Afghanistan), as well as by relations withRussia. Uzbekistan regards itself as the most important country in CentralAsia and developed during the Yeltsin era a policy independent of Russia.

To this end, President Karimov has tried to bring Uzbekistan closer toWestern countries in general, and to European countries in particular. Thispolicy seemed less accentuated during Putin’s early Presidential period, due largely to the fear of Islamic fundamentalism. For Uzbekistan, a“ strong” Russia as advocated by Putin could mean a solid partner in thefight against Islamic fundamentalism and separatism.

The 11 September events have given an opportunity for President Karimov tostrengthen Uzbek ties with USA. Following 11th September 2001 eventsUzbekistan has adopted a clear policy of support to the coalition led bythe US. American troops are based on its territory officially toparticipate in humanitarian missions and search and rescue operations.

Uzbekistan tries to strengthen also its cooperation with Europe and takesarguments from his strong support to anti-terrorist activities. The 3rdEuropean-Uzbek-Cooperation Council in January 2002 agreed to enlargedialogue to Justice and Home Affairs issues. A new Sub-committee wascreated. It held its first two sessions in July 2002 and July 2003 and canbe considered on both sides as a fruitful exchange of views.

Turkey also plays a considerable role in the formulation of Uzbek foreignpolicy. In particular, Tashkent counts on Istanbul to ‘ draw’ it closer toEurope, as well as to provide assistance in the fight against terrorism, drug trafficking and organised crime.

Relations with other countries of the region are marked by reciprocalpressures. The dispute over scarce water resources may become in the futureone of the important issues and obstacles in bi-lateral relations betweenCentral Asian “ up-stream-countries” like Kyrgyzstan and Tajikistan and“ down-stream-countries” like Kazakhstan and Uzbekistan. Uzbekistan did notreact with much enthusiasm to the initiative (in spring 2000) of the formerForeign Minister of the United Kingdom, Robin Cook, seeking to outline astrategic approach to the problem of water in Central Asia, under theauspices of the OSCE.

Rivalry with Kazakhstan (the other candidate for leadership of the region)has been an obstacle to regional cooperation, particularly since 2000.

Moreover, Uzbekistan has cut many times gas supplies to Kyrgyzstan and thesouth of Kazakhstan, which in return refused respectively to provide waterfor irrigation or to ensure the transit of Uzbekistan goods through theirterritory. An agreement has been reached in September 2001 with Kyrgyzstanbut this agreement as the previous ones failed rapidly. Taken as aninternal security measure, Uzbekistan has mined its border with Kyrgyzstanand Tajikistan in the Ferghana Valley. Many casualties including death ofpeople have occurred. This mining has further isolated Uzbekistan from theother countries.

Economic situationUzbekistan is rich in natural resources such as coal, copper, gold, naturalgas, oil, silver, and uranium, and with a well-educated population andqualified labour force it enjoys significant economic potential.

Immediately following independence in 1991, Uzbekistan experienced economicdifficulties similar to those that affected most CIS, including loss ofmarkets and subsidies from the Soviet Union; major disruptions in inter-republican trade and payments; hyperinflation; and declining output.

Against this background, the government decided deliberately to follow agradual, so-called step-by-step approach to macroeconomic and market-oriented structural reforms.

This gradual transition strategy, the policy of attaining early self-sufficiency in energy and food grains, and the largely successful effortsto diversify key exports (cotton and gold) to international markets helpedUzbekistan avoid the dramatic output collapse and drastic fall in livingstandards recorded in many other CIS countries during the early 1990s.

Notwithstanding these achievements, Uzbekistan’s gradualist reform strategyhas involved postponing significant macroeconomic and structural reforms.

The Asian and Russian financial crises, a bad cotton harvest in 1998, andfalling world commodity prices contributed to the substantial deteriorationof the economic performance of Uzbekistan in 1999. Uzbekistan has respondedto the negative external conditions by tightening export and currencycontrols within its already largely closed economy. Because of thissituation, and due to bureaucratic difficulties and the absence of a modernbanking system, foreign direct investment in Uzbekistan has fallen sharply.

International financial institutions criticised the Uzbek government forhaving made limited progress in some areas, including privatization and thefinancial sector. Having repeatedly shunned the IMF, the government has noaccess to international financing. The IMF permanent representative leftTashkent in April 2001, expressing deep concerns of the IFI towards absenceof economic reform in Uzbekistan. Following IMF missions, Uzbekistan signedon 15 October 2003 Article VIII of the IMF statute (i. e. allowing fullexternal convertibility of the Sum). This long awaited step forward waswelcome by the international community, including the EU.

Structure of the economy: Uzbekistan’s relative economic success was mainlydue to its favourable economic structure. The country remained a primarycommodity exporter (cotton, gas, oil, gold) with a low value-addedmanufacturing sector. Despite the difficult terrain (60 % is desert, steppe, or semi-arid land and only 10 % is cultivated), agricultureaccounts for about 25% of GDP and employs about 40 % of the labour force.

However the dependency on exports of primary goods makes the countryextremely vulnerable to shifts in world commodity prices.

Trade: Primary commodities, together with cotton fiber, account for about75 % of Uzbekistan’s merchandise exports, with cotton alone accounting for40 %. Uzbekistan is the world’s second largest cotton exporter havingsupplied in 1999/2000 6% of the world’s cotton production. In recent years, Uzbekistan was increasingly faced with strong competition on the worldcotton markets from the US and China. The country’s economic crisis in 1998-1999 was exacerbated by the impact of a severe drought on the cotton andrice crops output in 2000, prompting the Uzbek authorities to call forinternational aid.

Growth: According to official data, real GDP grew by 5. 2 % in 1997, 4. 4 %in 1998, 4. 4 % in 1999 and 4 % in 2000. However, official statistics areunreliable since they inflate growth figures by understating the true rateof inflation and through biased surveying. Accordingly alternativeestimates of GDP growth are much lower. However, even the lower estimatesconfirm that Uzbekistan has now recorded five straight years of positiveper capita GDP growth. Uzbekistan’s 1999 GNP per capita is estimated at US$ 720, placing it among lower-middle-income economies.

On the other hand, recent internal and external trends imply thatmacroeconomic stability is at risk. The sharp decline in exports since mid-1998, the drop of world market prices of cotton and gold, theadministratively-imposed import-substituting industrialisation, the rapidaccumulation of (mainly short-term) external debt, and declininginternational reserves together with other factors led to an economiccrisis in 2000 in which the government has been forced to depreciate theSom by over half of its value in the second half of 2000. According to theministry of finance, Uzbekistan ended 2000 with a foreign debt of US $ 4. 15billion. This represents 48 % of GDP (using the official exchange rate) and128 % of GDP (at the black market rate).

Inflation: Using official figures, the y-o-y rate of inflation in 2000 wasabout 25%. However, the true rate of inflation is likely to be twice ashigh.

Environmental problems: Uzbekistan faces a number of very serious environmental problems, the mostpressing of which is the crisis in the Aral Sea basin situated in thenorthwestern part of the country. Poor water management over an extendedperiod of time in Uzbekistan and neighbouring states, the diversion forirrigation of huge amounts of water from the two rivers that feed theregion (Amu Darya and Syr Darya), have resulted in the partial drying up ofthe sea and its contamination by agricultural chemicals. This is now havinga strong negative impact on economic activity and on the general health ofthe population.

EU – Uzbekistan RelationsGeneral frameworkFor the EU, Uzbekistan is an important partner. The country is the economicand cultural heart of the region. Its geopolitical situation betweenRussia, China and the Islamic world makes it a valuable interlocutor.

However the deteriorating situation of human rights in Uzbekistan sinceFebruary 1999 has repeatedly caused the EU to express concerns about thepolitical developments in the country.

The 1989 Trade and Co-operation Agreement, signed with the former SovietUnion, served as a basis for the development of bilateral relations withUzbekistan before the implementation of the temporary agreement in 1996. On1 July 1999 the Partnership and Co-operation Agreement (PCA) entered intoforce, the meeting of the first Co-operation Council took place 13September 1999. These events marked a new stage in relations between the EUand Uzbekistan.

The PCA provides an appropriate framework for the development of politicalrelations; to support the efforts of the Republic of Uzbekistan toconsolidate its democracy and to develop its economy; to promote trade andinvestment; and to foster co-operation in legislative, economic, social, financial, civil scientific, technological and cultural fields. In order totake into account the enlargement process, a protocol extending PCA to theacceding countries was sent to the Uzbek authorities in December 2003.

The textile agreement which was initialled in 1993 and was applicable until31 December 1999, has been renewed by an exchange of letters and is nowapplicable until 31 December 2004. It does not envisage quantitativerestrictions, except for certain products of category 2 (mainly cottonproducts). Uzbekistan benefits from the Generalised System of Preferencessince 1 January 1993.

TradeUzbekistan is the second trading partner of the EU in the region, afterKazakhstan. Nevertheless, exchanges between the Member States and theUzbekistan have been decreasing since 1997. Uzbekistan’s economic situationand the consequences of the Russian crisis caused this reduction. In 2000an increase of the Uzbekistan-EU trade turnover could be observedUzbekistan’s exports to the EC are mostly agriculture products and textilesand clothing. The main import items from the EU are machinery, transportation material and chemicals. The trade balance has beenfavourable to the EU since 1996, totalling around E 104 million in 1999. Inthe year 2000 the value of Uzbek imports from the EU equalled almost thatof its exports. Bilateral trade amounted to E 801 million in 2002, with a E115 million trade deficit for the EC.

European companies provided a great deal of investment until 1996-97. Itseems that since then, this investment flow has slowed down. The way inwhich the Uzbek judiciary treated certain European companies operating onthe local market shows that the situation does not yet meet the criteria ofWTO member states.

EU AssistanceThe Community’s strategy towards the Central Asian region is set out in theCommission’s Strategy Paper for Central Asia 2002-2006.

Since 1992, Uzbekistan has benefited from assistance through the TACISprogramme (a total of E118. 6 million has been disbursed). The 1998-1999Tacis Action Programme amounted E29 million and covered different sectors(rural development, institutional building…). Action Programme (2000-2001) adopted by the Commission in 2000 amounted to E15 million. It coveredrural development, social consequences of transition and institutionalreforms. The new Strategy for Central Asia for 2002-2006 adopted by theCommission on 30 October 2002 with the new Tacis Indicative Programme (2002-2004) focussing on regional activities led to no Country Strategy Paper forUzbekistan. E29 million has been earmarked for national activities forUzbekistan with focus on regional elements. Based on this IndicativeProgramme two Tacis Action Programmes were adopted in December 2002 and inJuly 2003. A Relex mission was in Tashkent in September 2003 to start thepreparation of the Tacis Indicative Programme for 2005-2006. A mission ledby EuropeAid will take place in October to prepare the Tacis 2004 ActionProgramme which is planned to be adopted by the Commission before 2004summer break.

The Uzbek have requested EIB to finance an education project and haveexpressed the wish to have additional funding from Food Security Programme.

However for the moment apart from Tacis no other EU assistance activitiesare foreseen in the future for Uzbekistan.

Future relationsFuture relations are closely linked to the implementation of thePartnership and Co-operation Agreement and to the continuation of domesticreforms in Uzbekistan. It should be noted that there is a contradictionbetween the stated political willingness of the Uzbek authorities to drawcloser to Europe, and an increasingly isolationist domestic and foreignpolicies, accompanied by limited progress in the field of democratisationand economic reform. In the Partnership and Co-operation Agreement explicitreference is made to the ‘ common values’ of the two contracting parties, and consequently to the obligations of Uzbekistan regarding economicliberalisation and defence of human rights. As to economic reforms it isone of the EU’s objectives to encourage Uzbekistan to move ahead withconvertibility of the national currency and to improve the business climatein the country. The EU will further encourage Uzbekistan to enforce it’sengagement in regional EU and OSCE co-operation initiatives (still state ofaffairs?).

General dataGeography : The Republic of Uzbekistan (Uzbekiston Jumhuriyati) covers asurface of 447, 400 km. The country is a doubly land-locked. Uzbekistanincludes the southern part of the Aral Sea with a 420 km shoreline. Thecountry has common borders with Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan and Turkmenistan. It also has small enclaves inside Kyrgyzstanand Tajikistan. Uzbekistan is composed of 12 administrative regions as wellas of one autonomous republic (Karakalpakstan). Numerous territories areirrigated and produce cotton and other agricultural products. The climateis continental (with cold winters and hot summers).

The capital Tashkent, completely destroyed by the earthquake of 1966, hasbeen rebuilt. It is the most populated city, with 2. 4 million inhabitants.

Other cities are famous and have architectural treasures: Samarcand(population: 392. 000), Boukhara, Khiva. City residents account for 41% ofthe total population. In the east, the Ferghana valley (irrigated by theSyr Darja river, which flows through Kazakhstan before ending in the AralSea) is very populated and has a developed agriculture.

Population : 24, 75 million (estimate on July 2000), i. e. a density of 55inhabitants/km. Ethnic groups: The majority of the population is composedof Uzbeks (77%), the remainder includes several minorities: Russians (6%), Tajiks (5, 1%), Kazakhs (4, 2%), Crimea Tartars (2%), Karakalpaks (2%), Koreans (1%), Kyrgyzs (1%), others (1, 7%).

Religions: Muslim 88% (mostly Sunnis), Russian Orthodox 9%, other 3%Official language: Uzbek. Other languages: Russian, Tajik.

Political system: Uzbekistan is formally a parliamentary republic; effectively little power is allocated outside the executive branch; executive power is concentrated in the presidency.

Constitution: adopted 8 December 1992.

Legislature: Unicameral Supreme Assembly (Oliy Majlis) with 250 seats, elected by popular vote to serve five-year terms). A nationwide referendumhold on the 27 January 2002 authorised the election of a bicameralparliament for the second convocation of the parliament in December 2004.

Executive branch: Head of the state: President, elected by popular vote fora seven-years-term (The above mentioned referendum agreed with theextension of the president’s constitutional term in office from five toseven years).. Head of government: Prime Minister, appointed by thePresident.

Judicial branch: Supreme Court, judges are nominated by the president andconfirmed by the Supreme Assembly. With the Soviet Civil law in forceUzbekistan still lacks an independent judicial system.

Incumbent Government: Since the independence of 31 August 1991, Uzbekistanhas been governed by President Islam Karimov (during the late Soviet periodhead of the Communist Party, now chief of the People’s Democratic Party).

He was re-elected on 9 January 2000 with 91, 9% of the votes.

The last parliamentary elections were held on 5 December 1999 and gaveresults favourable to the government. All parties in the Supreme Assemblysupport President Karimov. Prime Minister: Utkir Sultanov (since 21December 1995), also in charge of co-ordinating the EU’s TACIS assistanceprogramme. Foreign Minister: Abdulaziz Kamilov.

Bilateral trade EU-Uzbekistan (Million ECU/E)| | EU imports| EU exports| Turnover| Balance|| 1993\*| 415| 201| 616|-? 214 || 1994\*| 518| 391| 909|-? 127 || 1995| 500| 409| 909|-? 91 || 1996| 519| 658| 1177|+ 139|| 1997| 541| 762| 1303|+ 221|| 1998| 465| 590| 1055|+ 125|| 1999| 392| 496| 888|+ 104|| 2000| 484| 484| 968| 0 |\* 12 Member States (Source: Eurostat-Comext April 2001)CURRENT POLITICAL AND ECONOMIC SITUATIONPolitical situation– Independent from the Soviet Union since 27 October 1991, the powerstructure in Turkmenistan remains largely unaltered since Soviet days.

President Saparmurad Niyazov, who has taken the title Turkmenbashi (‘ leaderof the Turkmens’) has now been in power for 13 years, first as President ofTurkmen SSR, then of independent Turkmenistan. Nyazov has been asked byvarious local groups to be “ president for life,” but he has declined, saying the status would require an amendment to the constitution . There isno formal opposition since rival political parties are outlawed.

Unofficial, small opposition movements exist mainly underground or inforeign countries. The whole political situation is dominated by PresidentNyazov who has decided to develop Ashgabat in building huge monuments paidby the Presidential Fund (a US$1. 3 billion managed directly by himself). InOctober 2000, President Niyazov reiterated that his country is not yetmature enough to make the transition to a multiparty democracy, and deniedthe existence of political prisoners in Turkmenistan. However, varioushuman rights organisations have documented the sentencing of numerouspersons for criticising Niyazov’s policies. Religious tolerance is also non-existent in Turkmenistan. After a period of relative “ inactivity” duringthe summer of 2000, Turkmen police and security officers have again begunraiding Protestant churches and arresting baptists.

– On 18 February 2001 Niyazov, whose presidential term was extended for anindefinite period in December 1999, told the annual session of the Turkmenlegislature that he will leave office no later than 2010, when he will turn70. He said open elections should then be held in which several youngercandidates would contest the presidency, but that only persons who haveheld public office for 5-10 years and whose candidacy is approved byparliament will be eligible. In addition, candidates must have lived inTurkmenistan for 10 years prior to the presidential ballot, a restrictionthat rules out former Foreign Minister Avdy Kuliev, who currently livesabroad. The parliament duly approved a law on holding presidentialelections in 2010. Niyazov had told foreign ambassadors on 16 February thatlegislation on the election of regional administrators and the presidentwill be passed in 2008.

– Turkmenistan has declared itself to be a neutral country and this hasbeen recognised by the UN. It has excellent relations with Iran and Turkey.

It tries to play a role on the regional political scene. In February 1999negotiations between the Talibans and Commander Massoud and other AfghanFactions where opened in Ahgabat. Despite the President’s refusal to jointhe CIS Customs Union, Turkmenistan retains a close bilateral relationshipwith Russia. The country transferred officially from the Cyrillic to theRoman script in 1995.

– Turkmenistan’s natural gas reserves are among the largest in the worldand it also has important proven and recoverable oil reserves. The gassector accounts for 50% of GDP. The country is also among the top tencotton producers. Cotton is the principal export to the West, but itscultivation relies highly on irrigation and recently scarce arable land hasbeen increasingly turned over to cereals in a bid to achieve greater self-sufficiency in basic food crops. But the 2000 drought could lead to certaindifficulties in the country.

– Output has declined for several consecutive years and the economycontinues to be dominated by the State Sector. Considerable arrears inpayments by NIS (Ukraine, Georgia…) for gas have accumulated. It was onlyin December 1995 that the government adopted a comprehensive economicreform programme. Most notably, the exchange rate was unified, allocationof credit by decree was discontinued, interest rates freed and substantialmeasure aiming at price liberalisation introduced. The government hasstated that its principal objective is to stabilise the currency and reduceinflation to manageable levels. There is no IMF programme presently for thecountry.

Turkmen foreign policyIts foreign policy is closely linked with energy issues. Access to externalmarkets is the main objective of Turkmenistan.

– Turkmenistan’s relations with surrounding states have foundered. Thesteadfast refusal to join regional alliances has isolated Turkmenistan, andthis situation continues into 2001. The cultivation of a specialrelationship with Russia has run into problems because of fundamentalinequalities of economic power. Turkmenistan now finds that Russia’s gasfirm, Gazprom, is preventing it from exporting gas to Europe and isrestricting its ability to sell gas even to Ukraine. Despite an agreementreached with Russia in December 1998 and an increase in energy pricesduring the present period Turkmenistan is still facing problems to exportits energy. The debt issue is still a problem for Turkmenistan which cannotget payments back from energy sold to Russia, Ukraine and other CIScountries.

– Turkmenistan tries to develop good relations both with Iran (in order todevelop an access to open seas through this country) and with USA which isproviding assistance to develop the trans-Caspian pipeline linkingTurkmenistan with the Mediterranean Sea. However the human rights issue(criticism from US States Department) and the absence of real economicactivity has led to President Niyazov to put an end to the contract agreedwith certain American firms for the Trans-Caspian pipeline.

– In October 2000 Turkish President Sezer visited Ashgabat and held talkswith Niyazov, which focused on trade and economic issues, above all theimplementation of the 1999 agreement whereby Turkey will buy 16 billioncubic metres of Turkmen gas annually beginning in 2002. That agreement iscontingent on construction of the Trans-Caspian gas pipeline. Niyazov wasquoted as saying that a new energy agreement with Turkey will be signedduring a summit of Turcophone states to be held in April 2001.

– The long-planned summit of Caspian littoral states on the legal status ofthe Caspian Sea should take place in Turkmenistan in 2001. A statementpublished in advance of that meeting in the official Turkmen press repeatsthat Ashgabat believes that the division of both the seabed, surface andwaters into equal national sectors is “ the only acceptable approach” todefining the status of the Caspian. Russia, Azerbaijan and Kazakhstan, however, advocate dividing only the seabed and leaving the surface andwaters in common use, while Azerbaijan opposes any modification of theexisting median line dividing the Azerbaijan and Turkmen sectors. TheTurkmen statement also said that the summit should address “ issues ofregional security,” and declare the entire Caspian a demilitarized zone.

Economic situationTurkmenistan’s economy is based on the production of raw materials, principally oil, gas and cotton. It depends on oil and gas for 80% of itsrevenues.

– In spite of enormous oil, gas and other mineral resources, the countryhas so far not been able to halt in 1998 a most dramatic recession.

Economic data are totally unreliable. The government has claimed thatgrowth was positive in 1998 but, although the scale of the recession of1997 (the economy shrunk by about 25% in just one year!) has not beenrepeated, growth was probably close to zero. The economy which was is in astate of near-collapse after almost two years without revenue from gasexports 1997 and 1998) has recovered in 1999. In 1997 and 1998 there was asharp fall in output, inter- enterprise and wage arrears are rising, andthe national currency (the manat), has undergone a steep devaluation. Thesefactors have combined to lower the standard of living of a population thathas already suffered significant falls in income. According to Governmentfigures released in January 2001, Turkmenistan’s GDP in 2000 increased by17. 6% year-on-year, and is set to grow by a further 16% in 2001, whileconsumer goods production is expected to increase by 18% in 2001. Chronicstructural problems remain, although banks have been consolidated in anattempt to improve the fiscal sector. In October 2000 President Niyazovruled out privatisation of the oil and gas sectors within the next 10-15years. These would, he said, remain a key component of the country’seconomy and contribute funds to the social sector.

– The economy is in the midst of a severe liquidity crisis. Reserve levelsand export earnings have fallen, whereas foreign liabilities have risensharply. Turkmenistan has been forced to restrict even the limited currencyconvertibility it previously allowed (there is a discrepancy of one tothree between the official exchange rate and the black market one). Theauthorities have said that the tough foreign exchange restrictions wouldend when higher cotton export receipts arrive in the first quarter of 1999.

This has not been the case, despite a good harvest in 1999 (for both cottonand grain). Turkmenistan was kept afloat through massive foreign borrowing(mainly from Islamic countries). Foreign debt rose from zero in 1992 toabout 80% of GDP in 1998. Foreign direct investment remains low ($108mn in1997, $129mn in 1996).

– Turkmenistan is the only former Communist bloc state which has not yetconcluded an IMF-backed stabilisation programme. Such a programme wouldrequire monetary tightening and would thus restrain inflation. However, theimplementation would be likely to run into trouble because of theauthorities fundamental hostility to the reforms required by the IMF, whichwould include slashing consumer subsidies and moving towards a convertiblecurrency.

Turkmenistan is highly dependent on trade with the NIS which was quicklydrying up since the Russian crisis in August 1998. Besides, energy debts ofother FSU countries to Turkmenistan are rapidly rising. Nonetheless, inFebruary 2001 the Turkmen government and Russia’s ITERA energy corporationsigned an agreement whereby Turkmenistan will sell Russia 10 billion cubicmeters of gas in 2001 – the same amount as in 2000, but at a higher price($40 per thousand cubic meters compared with $36-38 in 2000, half of whichwill be paid in hard currency and half in commodities.) Turkmenistan isalso expected to conclude a long-term agreement on the sale of natural gasto Ukraine in the very near future. The main concern, however, are domesticeconomic developments in Russia which affect Turkmenistan’s long-termobjective to boost hard currency earnings by exporting gas to westernEurope and south-east Asia. The lack of structural reform in Russia impliesthat Gazprom will retain its monopoly position and its ability to exacthigh pipeline transit fees for Turkmen gas exports to Ukraine and otherformer Soviet markets.

EU – TURKMEN RELATIONS1. 1989 trade and cooperation Agreement with former USSR.

Three Joint Committees UE-Turkmenistan under the old 1989 trade and co-operation agreement already took place in 1996, May 1997 and September1998. The last joined Committee took place in Ashagat on 20 November 1999.

2. Partnership and Co-operation Agreement (PCA)A PCA has been signed in 1998 with Turkmenistan. It is under ratificationby the Member States Parliaments and the European Parliament. An InterimAgreement has already been agreed and has be signed on 10 November 1999during the visit of Deputy Prime Minister Orazov to Brussels. It is not yetoperational.

3. Textile agreement between the EU and TurkmenistanThe Turkmen export are not subject to restrictions with the EC.

4. TradeTrade with Turkmenistan is not stable due to the importance of energyproduct. The principal reasons of the decrease are shortage of hardcurrency due to the failure of Turkmenistan’s main customers to pay fornatural gas, and poor cotton harvests (which have also affected otherCentral Asian countries).

Trade with Turkmenistan accounts for about 12% of overall trade between EUand the five Central Asia countries (trade with Central Asia accounts forabout 6% of overall trade with the CIS-12).

5. E. C. loanThe repayment of the ECU 44, 9 million credit facility awarded in 1992 bythe EC to Turkmenistan for the purchase of food and medicines has beencompleted at the end of last year. The fourth and last tranche of thephased repayment has been paid on 15. 12. 96.

6. Food aidA small EU food aid operation (3 MECU) took place in 1997.

7. TACISSince 1991, E41 Million have been allocated to Tacis national programmes inTurkmenistan. These have been concentrated above all in the food sector, inenterprise restructuring, and in human resources. A new Action programmehas been approved by the Commission in September 1999. The implementationof Tacis projects is facing problems due to difficulties by the Turkmenpartners.

8. EnergyThere is increasing interest in Turkmenistan among investors in the energysector, both in the construction of pipelines – the proposed pipelinethrough Afghanistan to Karachi is to be built by a US/Saudi Arabian jointventure – and in the exploration and extraction sectors. It is clear thatTurkmenistan will require major investments in the coming years if it is tomaintain its production capacity. Reserves are being used up much fasterthan they are being replaced. Important opportunities for Europeancompanies are therefore in the process of emerging.

GENERAL DATA1. Official name : Turkmenistan2. Geography : Turkmenistan is a largely desert country covering an area of 488 000 km2.

It is situated between the Caspian Sea to the West, Uzbekistan to the Eastand North, and Iran and Afghanistan to the South. It has 3, 736 km of landboundaries including borders with Afghanistan (744 km), Iran (992 km), Kazakhstan (379 km) and Uzbekistan (1, 621 km). Turkmenistan borders theCaspian Sea (1, 768 km). The climate is subtropical desert and the terrainis flat-to-rolling sandy desert with dunes rising to mountains in thesouth; low mountains along border with Iran and borders Caspian Sea inwest. The elevation extremes are the lowest point in Sarygamysh Koli 110 mbelow sea level and the highest point in Ayrybaba 3, 139 m. The main cityAshgabat is the capital.

3. Population : The population was estimated in July 1998 to 4, 297, 629 inhabitants.

. Population growth rate is 1. 6% (1998 est.) with a birth rate of 26. 24births/1, 000 population (1998 est.) and a death rate: 8. 7 deaths/1, 000population (1998 est.) and the net migration rate: -1. 58migrant(s)/1, 000 population (1998 est.).

. Infant mortality rate: 72. 89 deaths/1, 000 live births (1998 est.). Life expectancy at birth:. total population: 61. 3 years (1998 est.). male: 57. 68 years. female: 65. 11 years Total fertility rate: 3. 26 children born/woman(1998 est.). Ethnic groups: Turkmen 77%, Uzbek 9. 2%, Russian 6. 7%, Kazakh 2%, other5. 1% (1995). Religions: Muslim 89%, Eastern Orthodox 9%, unknown 2%4. Languages: 72% of the population speak Turkmen, 12% Russian, 9% Uzbek and 7% otherlanguages. Turkmen and Russian are the official languages.

5. GovernmentSaparmurat Niyazov is President of Turkmenistan since 27 October 1990, whenthe first direct presidential election occurred. The President is both theHead of State and Head of Government (Chairman of the Cabinet). PresidentNiyazov was elected president without opposition. He gained 99. 5% of vote.

On 15 January 1994 he improved his performance by gaining 99. 9% of thetotal vote, held by national referendum. This referendum decided that hewould remain president until 2002. Then Mr Niyazov was appointed ‘ Presidentfor Life’ in December 1999. But a new law proposed that next generalelections should take place in 2010.

There are also different Deputy Chairmen of the Cabinet of Ministers YollyGurbanmuradov (dealing with energy issues), Hudaayguly Halykov (who is alsodealing with Transport issues), K. Rozyev (dealing with agriculture issues)and Orazmurad Begmyradov (the former head of the chief tax Inspectorate hasbeen appointed in September 2000 as Deputy premier with responsibility forthe Finance and Economy Ministry and the customs and tax services). TheTacis National Coordinator is M. Kandimov. The Council of Ministers isappointed by the President. The Minister for foreign affairs Batyr Berdiyevhas replaced in July 2000 Boris Shikhmuradov who was also Deputy Chairmanof the Cabinet of Ministers. M. Shikhmuradov has been appointed specialenvoy of President Niyazov for Afghanistan and then Ambassador.

6. ParliamentUnder the 1992 constitution, there are two parliamentary bodies, anAssembly or Majlis (50 seats; members are elected by popular vote to servefive-year terms) and a People’s Council or Halk Maslahaty (more than 100seats, including the 50 members of the Majlis, directly elected members andadditional executive and judicial officials. The People’s Council meetsinfrequently. The last election for the Assembly took place on 11 December1994. The Democratic Party (former communist party) won all seats and all50 members were pre-approved by President Niyazov. In December 1999 generalelections took place but all the candidates were approved by the Presidenthimself. Hence the OSCE did not observe these elections.

7. External trade (MEURO) with EU| | 1993 | 1994 | 1995 || National | Regional1 | National | Regional | National | Regional | | ActionProgramme 2000 |- |- | | | | | | Action Programme 2001 | 10. 0 |- | | || | | Action Programme 2002 | 8. 3 | 11. 0 | | | | | | Action Programme 2003| 7. 5 | 15. 0 | | | | | | Action Programme 2004 | 6. 2 | 14. 0 | | | | || Total | 33. 0 | 30. 0 | | | | | | 1 Benefiting the 5 countries of CentralAsiaFrom the budgetary year 2002 onwards, the Tacis assistance for Kyrgyzstanis based on the Strategy Paper 2002-2006 and the Indicative Programme 2002-2004 for Central Asia, which are based on the following “ three-track” approach; 1) regional programme, 2) regionally identified prioritiesimplemented at national level and 3) poverty alleviation.

The Kyrgyz Batken Oblast in the Ferghana Valley will benefit from povertyalleviation activities under Tacis worth 3 mil; lion euros per year.

Success storiesIn Kyrgyzstan, Tacis has reached very positive results in projectsimplemented in the sectors of public administration reform and SMEdevelopment. In addition, on the basis of the convergence of Tacis’ and theFood Security Programme’s commitment towards institutional reforms, a highquality and constructive cooperation was established between bothinstruments. In particular, considering the fact that the FSP’s budgetarysupport to the Kyrgyz budget represents 3% of the republican budget and0. 5% of GDP, the financial leverage of the FSP (in the form of itsconditionalities) proved to be a valuable instrument for Tacis to pressahead with the implementation of changes in the area of publicadministration and institutional reforms where progress is highly dependenton the Government’s pace and political commitment towards the reformprocess and where resistance from an old guard of civil servants may be aconsiderable obstacle. Greater cohesion and complementarity of actionsresulted in an increased impact of EU-provided support, a better visibilityof the EC regarded as a well organised and integrated organisation.

Important regional JHA programmes from which Kyrgzystan benefits are theBorder Management Inititiative for Central Asia (BOMCA) and the CentralAsia Drugs Action Plan (CADAP), which are two major EC contributions toregional stability and the fight against drug trafficking and hence, indirectly, terrorism.

In 2003 the Commission also co-financed with 1 MEUR a project to reformpolice forces in Kyrgyzstan. Main reasons for EC to support the policeproject (through the Rapid Reaction Mechanism) were the specific need toimprove the interface between population and police and the general need toimprove the rule of law in Kyrgyzstan.

Some data on the Kyrgyz Republic (2002)Population: 5, 0 million.

Area: 198. 500 square km.

GDP growth: 5, 3 % in 2001, -0, 5% in 2002.

GNI per capita: E 290Poverty: 64 % of populationSee for a fuller set of social and economic indicators the Worldbankcountry fact sheet for the Kyrgyz Republic.