

# Current political and economic situation essay



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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

bicameral parliament for the second convocation of the parliament in December 2004.

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

Despite having taken some transitional democratic measures (opposition parties were granted legal status, an ombudsman was appointed, etc.), and even though President Karimov had shown an early interest in Western (and in particular European) institutional systems, it seems that over the past five years (since the bombing on 6 February 1999 in Tashkent) the democratic process in Uzbekistan has taken a step back to practices inherited from Soviet times. Freedom of expression is today severely restricted in Uzbekistan, with essentially no independent press. All but two newspapers are government-owned and require approval from the Committee for the Control of State Secrets for all published news articles. Moreover, the right to organize political demonstrations is constrained.

Even if Uzbekistan has moved ahead since 11. 09. 01 with NGO registration (on 4 March 2002 the first formal NGO registration by the Ministry of Justice took place for the Independent Human Rights Organization) or trial of policemen involved in the killing of prisoners, basic human rights are not applied in Uzbekistan. Reports on alarming incidents in the prisons of the country (torture of detainees, death in custody) and on the increasing number of detentions of pious Muslims and their families who practice their religion outside state control, caused the EU to express deep concerns about the deteriorating situation of human rights in Uzbekistan. In

the Conclusions of the second meeting of the EU-Uzbekistan Co-operation Council which took place on 23 January 2001 in Brussels the Uzbek side agreed to permit representatives of the International Committee of the Red Cross (ICRC) to inspect places of detention and to concede authorization to foreign representatives, to observe trials of individuals accused of acts against the state and the constitutional order. The Red Cross visits prisons on a regular basis since then and has reported that the conditions were correct but the implementation of this agreement is difficult. The EU has raised this point during the 4th Cooperation Council on 27 January 2003.

The rise of radical Islam and drug trafficking, especially in the Ferghana valley, are two of the major dangers facing Uzbekistan today. Fear of the Islamic fundamentalist threat (in particular in the Ferghana Valley, the most densely populated region in Central Asia, with the IMU, the Islamic Movement of Uzbekistan), regional isolation (border delimitation problems with its neighbours Tajikistan, Turkmenistan, Kazakhstan and Kyrgyzstan, borders closed by the Uzbek authorities, borders sometimes mined as in the Ferghana valley) and the emergence of organised terrorism (on 6 February 1999, 6 bombs exploded in Tashkent, killing 16 and injuring 184; other bloody events occurred throughout summer 2000 have all led to strengthened repression measures against opposition and enhanced security controls which further isolated the country. However it seems that IMU capacity to conduct terrorist activities is reduced. Most of its Afghan support has disappeared with the fall of the Taliban and the death of its leader (Namangani) in fights with American troops in early 2002. However the

transformation of IMU into a wider movement IMT (Islamic Movement of Turkestan) which includes Chinese Uighurs and the absence of peace settlement in Afghanistan are worrying for the Uzbek leadership.

**Foreign Policy** Uzbekistan's foreign policy is shaped by recent developments in the region, in particular in two of its neighbouring countries that have experienced civil war (Tajikistan and Afghanistan), as well as by relations with Russia. Uzbekistan regards itself as the most important country in Central Asia and developed during the Yeltsin era a policy independent of Russia.

To this end, President Karimov has tried to bring Uzbekistan closer to Western countries in general, and to European countries in particular. This policy 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 the fight against Islamic fundamentalism and separatism.

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

Uzbekistan tries to strengthen also its cooperation with Europe and takes arguments from his strong support to anti-terrorist activities. The 3rd European-Uzbek-Cooperation Council in January 2002 agreed to enlarge dialogue to Justice and Home Affairs issues. A new Sub-committee

was created. It held its first two sessions in July 2002 and July 2003 and can be considered on both sides as a fruitful exchange of views.

Turkey also plays a considerable role in the formulation of Uzbek foreign policy. In particular, Tashkent counts on Istanbul to 'draw' it closer to Europe, 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 reciprocal pressures. The dispute over scarce water resources may become in the future one of the important issues and obstacles in bi-lateral relations between Central Asian "up-stream-countries" like Kyrgyzstan and Tajikistan and "down-stream-countries" like Kazakhstan and Uzbekistan. Uzbekistan did not react with much enthusiasm to the initiative (in spring 2000) of the former Foreign Minister of the United Kingdom, Robin Cook, seeking to outline a strategic approach to the problem of water in Central Asia, under the auspices 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 the south of Kazakhstan, which in return refused respectively to provide water for irrigation or to ensure the transit of Uzbekistan goods through their territory. An agreement has been reached in September 2001 with Kyrgyzstan but this agreement as the previous ones failed rapidly. Taken as an internal security measure, Uzbekistan has mined its border with Kyrgyzstan and Tajikistan in the Ferghana Valley. Many casualties including

death of people have occurred. This mining has further isolated Uzbekistan from the other countries.

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

Immediately following independence in 1991, Uzbekistan experienced economic difficulties similar to those that affected most CIS, including loss of markets 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 a gradual, 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 efforts to diversify key exports (cotton and gold) to international markets helped Uzbekistan avoid the dramatic output collapse and drastic fall in living standards recorded in many other CIS countries during the early 1990s.

Notwithstanding these achievements, Uzbekistan's gradualist reform strategy has involved postponing significant macroeconomic and structural reforms.

The Asian and Russian financial crises, a bad cotton harvest in 1998, and falling world commodity prices contributed to the substantial deterioration of the economic performance of Uzbekistan in 1999. Uzbekistan

has responded to the negative external conditions by tightening export and currency controls within its already largely closed economy. Because of this situation, and due to bureaucratic difficulties and the absence of a modern banking system, foreign direct investment in Uzbekistan has fallen sharply.

International financial institutions criticised the Uzbek government for having made limited progress in some areas, including privatization and the financial sector. Having repeatedly shunned the IMF, the government has no access to international financing. The IMF permanent representative left Tashkent in April 2001, expressing deep concerns of the IFI towards absence of economic reform in Uzbekistan. Following IMF missions, Uzbekistan signed on 15 October 2003 Article VIII of the IMF statute (i. e. allowing full external convertibility of the Sum). This long awaited step forward was welcome by the international community, including the EU.

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

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

Trade: Primary commodities, together with cotton fiber, account for about 75 % of Uzbekistan's merchandise exports, with cotton alone accounting for 40



Uzbekistan is the world's second largest cotton exporter having supplied in 1999/2000 6% of the world's cotton production. In recent years, Uzbekistan was increasingly faced with strong competition on the world cotton 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 and rice crops output in 2000, prompting the Uzbek authorities to call for international 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 are unreliable since they inflate growth figures by understating the true rate of inflation and through biased surveying. Accordingly, alternative estimates of GDP growth are much lower. However, even the lower estimates confirm that Uzbekistan has now recorded five straight years of positive per 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 that macroeconomic stability is at risk. The sharp decline in exports since mid-1998, the drop of world market prices of cotton and gold, the administratively-imposed import-substituting industrialisation, the rapid accumulation of (mainly short-term) external debt, and declining international reserves together with other factors led to an economic crisis in 2000 in which the government has been forced to depreciate the Som by over half of its value in the second half of 2000. According to the ministry of finance, Uzbekistan ended 2000 with a foreign

debt of US \$ 4. 15billion. This represents 48 % of GDP (using the official exchange rate) and 128 % of GDP (at the black market rate).

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

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

EU – Uzbekistan Relations General framework For the EU, Uzbekistan is an important partner. The country is the economic and cultural heart of the region. Its geopolitical situation between Russia, China and the Islamic world makes it a valuable interlocutor.

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

The 1989 Trade and Co-operation Agreement, signed with the former Soviet Union, served as a basis for the development of bilateral relations with Uzbekistan before the implementation of the temporary agreement in

1996. On 1 July 1999 the Partnership and Co-operation Agreement (PCA) entered into force, the meeting of the first Co-operation Council took place 13 September 1999. These events marked a new stage in relations between the EU and Uzbekistan.

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

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

Trade Uzbekistan is the second trading partner of the EU in the region, after Kazakhstan. Nevertheless, exchanges between the Member States and the Uzbekistan have been decreasing since 1997. Uzbekistan's economic situation and the consequences of the Russian crisis caused this reduction. In 2000 an increase of the Uzbekistan-EU trade turnover could be observed. Uzbekistan's exports to the EC are mostly agriculture products and textiles and clothing. The main import items from the EU are machinery,

transportation material and chemicals. The trade balance has been favourable to the EU since 1996, totalling around E 104 million in 1999. In the year 2000 the value of Uzbek imports from the EU equalled almost that of 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. It seems that since then, this investment flow has slowed down. The way in which the Uzbek judiciary treated certain European companies operating on the local market shows that the situation does not yet meet the criteria of WTO member states.

**EU Assistance** The Community's strategy towards the Central Asian region is set out in the Commission's Strategy Paper for Central Asia 2002-2006.

Since 1992, Uzbekistan has benefited from assistance through the TACIS programme (a total of E118.6 million has been disbursed). The 1998-1999 Tacis 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 covered rural development, social consequences of transition and institutional reforms. The new Strategy for Central Asia for 2002-2006 adopted by the Commission on 30 October 2002 with the new Tacis Indicative Programme (2002-2004) focussing on regional activities led to no Country Strategy Paper for Uzbekistan. E29 million has been earmarked for national activities for Uzbekistan with focus on regional elements. Based on this Indicative Programme two Tacis Action Programmes were adopted in

December 2002 and in July 2003. A Relex mission was in Tashkent in September 2003 to start the preparation of the Tacis Indicative Programme for 2005-2006. A mission led by EuropeAid will take place in October to prepare the Tacis 2004 Action Programme which is planned to be adopted by the Commission before 2004 summer break.

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

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

Future relations Future relations are closely linked to the implementation of the Partnership and Co-operation Agreement and to the continuation of domestic reforms in Uzbekistan. It should be noted that there is a contradiction between the stated political willingness of the Uzbek authorities to draw closer to Europe, and an increasingly isolationist domestic and foreign policies, accompanied by limited progress in the field of democratisation and economic reform. In the Partnership and Co-operation Agreement explicit reference is made to the 'common values' of the two contracting parties, and consequently to the obligations of Uzbekistan regarding economic liberalisation and defence of human rights. As to economic reforms it is one of the EU's objectives to encourage Uzbekistan to move ahead with convertibility of the national currency and to improve the business climate in the country. The EU will further encourage Uzbekistan to

enforce its engagement in regional EU and OSCE co-operation initiatives (still state of affairs?).

**General data**  
**Geography :** The Republic of Uzbekistan (Uzbekiston Jumhuriyati) covers a surface of 447, 400 km. The country is a doubly land-locked. Uzbekistan includes the southern part of the Aral Sea with a 420 km shoreline. The country has common borders with Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan and Turkmenistan. It also has small enclaves inside Kyrgyzstan and Tajikistan. Uzbekistan is composed of 12 administrative regions as well as of one autonomous republic (Karakalpakstan). Numerous territories are irrigated and produce cotton and other agricultural products. The climate is continental (with cold winters and hot summers).

The capital Tashkent, completely destroyed by the earthquake of 1966, has been 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% of the total population. In the east, the Ferghana valley (irrigated by the Syr Darja river, which flows through Kazakhstan before ending in the Aral Sea) is very populated and has a developed agriculture.

**Population :** 24, 75 million (estimate on July 2000), i. e. a density of 55 inhabitants/km. **Ethnic groups:** The majority of the population is composed of 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 referendum held on the 27 January 2002 authorised the election of a bicameral parliament for the second convocation of the parliament in December 2004.

Executive branch: Head of the state: President, elected by popular vote for a seven-years-term (The above mentioned referendum agreed with the extension of the president's constitutional term in office from five to seven years).. Head of government: Prime Minister, appointed by the President.

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

Incumbent Government: Since the independence of 31 August 1991, Uzbekistan has been governed by President Islam Karimov (during the late Soviet period head 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 gave results favourable to the government. All parties in the Supreme Assembly support President Karimov. Prime Minister: Utkir Sultanov (since 21 December 1995), also in charge of co-ordinating the EU's TACIS assistance programme. 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 SITUATION Political situation-  
Independent from the Soviet Union since 27 October 1991, the  
power structure in Turkmenistan remains largely unaltered since Soviet days.

President Saparmurad Niyazov, who has taken the title Turkmenbashi ('  
leader of the Turkmens') has now been in power for 13 years, first as  
President of Turkmen SSR, then of independent Turkmenistan. Niyazov has  
been asked by various local groups to be "president for life," but he has  
declined, saying the status would require an amendment to the constitution.  
There is no formal opposition since rival political parties are outlawed.

Unofficial, small opposition movements exist mainly underground or  
in foreign countries. The whole political situation is dominated by  
President Niyazov who has decided to develop Ashgabat in building huge  
monuments paid by the Presidential Fund (a US\$1.3 billion managed directly

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by himself). In October 2000, President Niyazov reiterated that his country is not yet mature enough to make the transition to a multiparty democracy, and denied the existence of political prisoners in Turkmenistan. However, various human rights organisations have documented the sentencing of numerous persons for criticising Niyazov's policies. Religious tolerance is also non-existent in Turkmenistan. After a period of relative "inactivity" during the summer of 2000, Turkmen police and security officers have again begun raiding Protestant churches and arresting baptists.

- On 18 February 2001 Niyazov, whose presidential term was extended for an indefinite period in December 1999, told the annual session of the Turkmen legislature that he will leave office no later than 2010, when he will turn 70. He said open elections should then be held in which several younger candidates would contest the presidency, but that only persons who have held public office for 5-10 years and whose candidacy is approved by parliament will be eligible. In addition, candidates must have lived in Turkmenistan for 10 years prior to the presidential ballot, a restriction that rules out former Foreign Minister Avdy Kuliev, who currently lives abroad. The parliament duly approved a law on holding presidential elections in 2010. Niyazov had told foreign ambassadors on 16 February that legislation on the election of regional administrators and the president will be passed in 2008.

- Turkmenistan has declared itself to be a neutral country and this has been 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 1999 negotiations between the Taliban 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.

The steadfast refusal to join regional alliances has isolated Turkmenistan, and this situation continues into 2001. The cultivation of a special relationship with Russia has run into problems because of fundamental inequalities of economic power. Turkmenistan now finds that Russia's gas firm, Gazprom, is preventing it from exporting gas to Europe and is restricting its ability to sell gas even to Ukraine. Despite an agreement reached with Russia in December 1998 and an increase in energy prices during the present period Turkmenistan is still facing problems to export its energy. The debt issue is still a problem for Turkmenistan which cannot get payments back from energy sold to Russia, Ukraine and other CIS countries.

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

– In October 2000 Turkish President Sezer visited Ashgabat and held talks with Niyazov, which focused on trade and economic issues, above all the implementation of the 1999 agreement whereby Turkey will buy 16 billion cubic metres of Turkmen gas annually beginning in 2002. That agreement is contingent on construction of the Trans-Caspian gas pipeline. Niyazov was quoted as saying that a new energy agreement with Turkey will be signed during a summit of Turkophone states to be held in April 2001.

– The long-planned summit of Caspian littoral states on the legal status of the Caspian Sea should take place in Turkmenistan in 2001. A

statement published in advance of that meeting in the official Turkmen press repeats that Ashgabat believes that the division of both the seabed, surface and waters into equal national sectors is “the only acceptable approach” to defining the status of the Caspian. Russia, Azerbaijan and Kazakhstan, however, advocate dividing only the seabed and leaving the surface and waters in common use, while Azerbaijan opposes any modification of the existing median line dividing the Azerbaijan and Turkmen sectors. The Turkmen statement also said that the summit should address “issues of regional security,” and declare the entire Caspian a demilitarized zone.

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

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

Economic data are totally unreliable. The government has claimed that growth was positive in 1998 but, although the scale of the recession of 1997 (the economy shrunk by about 25% in just one year!) has not been repeated, growth was probably close to zero. The economy which was in a state of near-collapse after almost two years without revenue from gas exports (1997 and 1998) has recovered in 1999. In 1997 and 1998 there was a sharp fall in output, inter- enterprise and wage arrears are rising, and the national currency (the manat), has undergone a steep devaluation.

These factors have combined to lower the standard of living of a population that has already suffered significant falls in income. According to Government figures released in January 2001, Turkmenistan's GDP in 2000 increased by 17.6% year-on-year, and is set to grow by a further 16% in 2001, while consumer goods production is expected to increase by 18% in 2001. Chronic structural problems remain, although banks have been consolidated in an attempt to improve the fiscal sector. In October 2000 President Niyazov ruled out privatisation of the oil and gas sectors within the next 10-15 years. These would, he said, remain a key component of the country's economy and contribute funds to the social sector.

– The economy is in the midst of a severe liquidity crisis. Reserve levels and export earnings have fallen, whereas foreign liabilities have risen sharply. Turkmenistan has been forced to restrict even the limited currency convertibility it previously allowed (there is a discrepancy of one to three between the official exchange rate and the black market one). The authorities have said that the tough foreign exchange restrictions would end 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 cotton and grain). Turkmenistan was kept afloat through massive foreign borrowing (mainly from Islamic countries). Foreign debt rose from zero in 1992 to about 80% of GDP in 1998. Foreign direct investment remains low (\$108mn in 1997, \$129mn in 1996).

– Turkmenistan is the only former Communist bloc state which has not yet concluded an IMF-backed stabilisation programme. Such a programme would require monetary tightening and would thus restrain inflation. However, the implementation would be likely to run into trouble because of the authorities' fundamental hostility to the reforms required by the IMF, which would include slashing consumer subsidies and moving towards a convertible currency.

Turkmenistan is highly dependent on trade with the CIS which was quickly drying up since the Russian crisis in August 1998. Besides, energy debts of other FSU countries to Turkmenistan are rapidly rising. Nonetheless, in February 2001 the Turkmen government and Russia's ITERA energy corporation signed an agreement whereby Turkmenistan will sell Russia 10 billion cubic meters 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 which will be paid in hard currency and half in commodities.) Turkmenistan is also expected to conclude a long-term agreement on the sale of natural gas to Ukraine in the very near future. The main concern, however, are domestic economic developments in Russia which affect Turkmenistan's long-term objective to boost hard currency earnings by exporting gas to western Europe and south-east Asia. The lack of structural reform in Russia implies that Gazprom will retain its monopoly position and its ability to exact high pipeline transit fees for Turkmen gas exports to Ukraine and other former Soviet markets.

EU – TURKMEN RELATIONS 1. 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 September 1998. The last joined Committee took place in Ashgabat on 20 November 1999.

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

3. Textile agreement between the EU and Turkmenistan The Turkmen exports are not subject to restrictions with the EC.

4. Trade Trade with Turkmenistan is not stable due to the importance of energy product. The principal reasons of the decrease are shortage of hard currency due to the failure of Turkmenistan's main customers to pay for natural gas, and poor cotton harvests (which have also affected other Central Asian countries).

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

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

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

7. TACIS Since 1991, E41 Million have been allocated to Tacis national programmes in Turkmenistan. These have been concentrated above all in the food sector, in enterprise restructuring, and in human resources. A new Action programme has been approved by the Commission in September 1999. The implementation of Tacis projects is facing problems due to difficulties by the Turkmen partners.

8. Energy There is increasing interest in Turkmenistan among investors in the energy sector, both in the construction of pipelines – the proposed pipeline through Afghanistan to Karachi is to be built by a US/Saudi Arabian joint venture – and in the exploration and extraction sectors. It is clear that Turkmenistan will require major investments in the coming years if it is to maintain its production capacity. Reserves are being used up much faster than they are being replaced. Important opportunities for European companies are therefore in the process of emerging.

GENERAL DATA 1. Official name : Turkmenistan 2. Geography : Turkmenistan is a largely desert country covering an area of 488 000 km<sup>2</sup>.

It is situated between the Caspian Sea to the West, Uzbekistan to the East and North, and Iran and Afghanistan to the South. It has 3, 736 km of land boundaries including borders with Afghanistan (744 km), Iran (992 km), Kazakhstan (379 km) and Uzbekistan (1, 621 km). Turkmenistan borders the Caspian Sea (1, 768 km). The climate is subtropical desert and the terrain is flat-to-rolling sandy desert with dunes rising to mountains in the south; low mountains along border with Iran and borders Caspian Sea



inwest. The elevation extremes are the lowest point in Sarygamysh Koli 110 m below sea level and the highest point in Ayrybaba 3, 139 m. The main city Ashgabat 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. 24 births/1, 000 population (1998 est.) and a death rate: 8. 7 deaths/1, 000 population (1998 est.) and the net migration rate: -1. 58 migrant(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%, other 5. 1% (1995). Religions: Muslim 89%, Eastern Orthodox 9%, unknown 2% 4. Languages: 72% of the population speak Turkmen, 12% Russian, 9% Uzbek and 7% other languages. Turkmen and Russian are the official languages.

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

On 15 January 1994 he improved his performance by gaining 99.9% of the total vote, held by national referendum. This referendum decided that he would remain president until 2002. Then Mr Niyazov was appointed 'President for Life' in December 1999. But a new law proposed that next general elections should take place in 2010.

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

6. Parliament Under the 1992 constitution, there are two parliamentary bodies, an Assembly or Majlis (50 seats; members are elected by popular vote to serve five-year terms) and a People's Council or Halk Maslahaty (more than 100 seats, including the 50 members of the Majlis, directly elected members and additional executive and judicial officials. The People's Council meets infrequently. The last election for the Assembly took place on 11 December 1994. The Democratic Party (former communist party) won all seats and all 50 members were pre-approved by President Niyazov. In December 1999 general elections took place but all the candidates were

approved by the President himself. Hence the OSCE did not observe these elections.

7. External trade (MEURO) with EU | | 1993 | 1994 | 1995 || National | Regional | National | Regional | National | Regional | | Action Programme 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 Central Asia From the budgetary year 2002 onwards, the Tacis assistance for Kyrgyzstan is 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 priorities implemented at national level and 3) poverty alleviation.

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

Success stories In Kyrgyzstan, Tacis has reached very positive results in projects implemented in the sectors of public administration reform and SME development. In addition, on the basis of the convergence of Tacis’ and the Food Security Programme’s commitment towards institutional reforms, a high quality and constructive cooperation was established between both instruments. In particular, considering the fact that the FSP’s budgetary support to the Kyrgyz budget represents 3% of the republican budget and 0. 5% of GDP, the financial leverage of the FSP (in the form of its conditionalities) 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 Kyrgyzstan benefits are theBorder Management Initiative 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.

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