

KYRGYZSTAN AT A CROSSROADS: FACING THE ECONOMIC CAUSES OF THE TULIP REVOLUTION

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I n t r o d u c t i o n

The 24 March, 2005 Tulip Revolution has pointed out some of the most pressing problems that Kyrgyzstan currently faces. The Akaev administration was brought down by a popular uprising, which was occasioned more by economic hardship and deprivation than by political oppression. As a consequence, the post-revolutionary Kyrgyz leadership has inherited very acute economic and financial problems that they will have to address in order to avoid future public outbursts of fury.

Kyrgyzstan's stability and future development, however, does not solely depend on its leadership. 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 maturity. So far, these two organizations did nothing but damage in Kyrgyzstan, as they have undermined economic and social fabric of the country, and effectively prepared a fertile ground for the March 2005 crisis.

The Central Asian region is politically volatile, and economically remote. Kyrgyzstan faces potentially very violent political challenges from Islamic extremists and criminal groups. After the Tulip Revolution, these challenges continued to be magnified by economic hardship and deprivation of its population. Unless the new Kyrgyz leadership exercises caution, and due diligence in its economic policies, their blind following of the IMF and WTO guidance may ruin the country, and lead it toward more political violence.

Kyrgyzstan's Transition

Kyrgyzstan is a country of rare natural beauty. Its wealth rests mostly in tourism, agricultural, and resource industries. Prior to its independence in 1991, the republic 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 mostly raw materials and primary goods to the rest of the Soviet Union, Kyrgyzstan did not inherit sustainable economic infrastructure after the dissolution of the Union. Transportation routes were never well developed in the country, making it difficult to get goods in and out. Many manufacturing entities were artificially inserted into the country by Soviet leaders. For instance, there was a factory manufacturing torpedoes, and one assembling car doors. There was also a sugar refining enterprise, which was importing raw sugar from places like Cuba, refining it and distributing across the Soviet Union.³

Needless to say, the collapse of the Soviet Union left such industries out of action. With the Soviet regime departed subsidies and cash transfers from Moscow, which in 1991 (the last year of the Union) accounted for 12.2 percent of GDP, and 35.2 percent of the country's budget—about half of the latter being price subsidies.⁴ As a result, the Kyrgyz government budget fell from 38.5 percent of GDP in 1990 to 12.7 percent in 1992.⁵ In the 1990s, Kyrgyzstan ran large trade deficits, with the trade balance changing in 2000-2001, when the country reported small surpluses. According to 2004 data, the country's current account balance was negative, around US \$90 million, with trade deficit of US \$128.4 million.⁶

Askar Akaev, under whose leadership Kyrgyzstan emerged from the Soviet Union, won country's first contested election in 1990. He did not belong to the old Bolshevik guard, and as such enjoyed wide popular support. This fact was a huge credit to a post-Soviet leader, especially to one from Central Asia. Besides, during the final years of the Soviet regime, with newly found openness and free speech, the country enjoyed higher standards of living—the U.N. Development Program rated Kyrgyzstan 26 out of 173 by their Human Development Index.⁷ The leadership of the newly independent Kyrgyzstan was enthusiastic about market reforms, and soon the country became an exemplar follower of policy recommendations issued by the Washington consensus institutions.

In 1998, Kyrgyzstan became the first post-Soviet country to join the World Trade Organization. This at the time was hailed as a major achievement, and as an affirmation by the international community of Kyrgyz economic reforms. In the second half of the 1990s, the Kyrgyz economy was but a shadow of its former self: by 1995 Kyrgyzstan's Gross Domestic Product declined by 45 percent from its 1991 level.⁸ Amazingly, in the same year, the International Monetary Fund ranked Kyrgyzstan fourth among former Soviet republics (behind the Baltic countries) in the pace of economic reforms. To put it mildly, this was a misdiagnosis and a gross misinterpretation of the mean-

¹ See: M. Dabrowski, R. Antczak, "Economic Reforms in Kyrgyzstan," *Russian and East European Finance and Trade*, Vol. 31, No. 6, November-December 1995, p. 6.

² See: "Country Profile: Kyrgyzstan," *Library of Congress—Federal Research Division*, November 2005, p. 7, available at [<http://lcweb2.loc.gov/frd/cs/profiles/Kyrgyzstan.pdf>].

³ See: M. Dabrowski, R. Antczak, *op. cit.*, p. 7.

⁴ See: *Ibid.*, p. 8.

⁵ See: *Ibid.*, p. 19.

⁶ See: "Country Profile: Kyrgyzstan," p. 9.

⁷ See: A. Bauer, N. Boschmann, D. Green, K. Kuehnast, *A Generation at Risk: Children in the Central Asian Republics of Kazakhstan and Kyrgyzstan*, Asian Development Bank, Manila, 1998, p. 4.

⁸ See: R. Pomfret, K. Anderson, *Economic Development Strategies in Central Asia Since 1991*, Blackwell Publishers, Oxford, 2001, p. 191.

ing of “reforms:” the goal of economic reforms are not reforms themselves, but well-being of people and economic health of a nation. In 1995, one third of the country’s enterprises, some 120 of them were idle, and in 2004, the industry contributed only 13 percent of the GDP.⁹ The trend of de-industrialization continued more recently: according to the national Statistics Committee of Kyrgyzstan, the industrial output between January and October of 2005 has decreased by 9 percent from the corresponding period of 2004.¹⁰

Kyrgyzstan’s quick economic decline was, of course, primarily 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 republics were severed, and Kyrgyzstan was no exception. No former Soviet republic, except the Baltic republics, was properly prepared for the transition from planned to free market economy. However, just like other Soviet republics, Kyrgyzstan emerged from the Soviet Union with certain advantages, such as a high literacy rate, well educated middle class, functioning economic base, and welfare state institutions, especially those of universal education and healthcare. However, the economic reforms of the 1990s, advocated and guided by the IMF, diminished these obvious advantages for a developing state, and brought the country to an economic ruin and political violence.

The 1990s were dominated by the neoliberal economic doctrine, and the newly independent former Soviet republics were challenged with ready neoliberal ideological recipes of how to build functioning market economies. Such powerful international financial institutions as the IMF and the World Bank are still dominated by neoliberal ideologues who hold dear certain principles: any state intervention in the economy is pernicious, if left alone market will function perfectly, and that general theoretical economic policy prescriptions will work perfectly for any nation.¹¹ At the same time, these organizations have paid no attention to the well being of the population in their client states, and made no attempt to sequence their proposed reform, for instance, to have proper political and legal institutions in place before pushing for dissolution of state-held monopolies or state-run enterprises.¹²

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.¹³ 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 export controls and controls over profit margins. Dropping of controls immediately created 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.

Proper conduct of economic reforms is essential for their final success. For instance, a country should have legislation and institutions dealing with financial markets *before* financial liberalization takes place. The same is true for other markets, monopolies, privatization, property rights, etc. A properly organized and communicated system of property rights is especially crucial, since it is property that guides capital accumulation, and leads to economic growth. In other words, political and legal institutions should *precede* economic reforms, not follow them. Well organized institutions allow for

⁹ See: “Country Profile: Kyrgyzstan,” p. 7.

¹⁰ See: “Social Economic Situation of the Kyrgyz Republic,” National Statistical Committee, available at [<http://www.stat.kg/Eng/Home/Social.html>].

¹¹ For more on the IMF and its agenda see: J.E. Stiglitz, *Globalization and Its Discontents*, W.W. Norton & Company, New York, 2003.

¹² See: *Ibid.*, pp. 73-78.

¹³ See: M. Dabrowski, R. Antczak, *op. cit.*, p. 25.

a normal and well-functioning capitalist system, without which market economies do not come into existence.

From the very beginning of its independent existence Kyrgyzstan displayed an orientation toward a more liberal and free society than any of its neighbors in the region. Its leadership under President Akaev trusted policy recommendations and advice it received from international bodies and readily embraced neoliberal economic reforms. The country's abysmal economic performance, its huge national debt, its impoverished population, the rise of Islamic militancy, and the March 2005 Tulip revolution are direct results of those reforms.

Kyrgyzstan and the IMF-WTO Tandem

Kyrgyzstan's dependency on international financial organizations dates back to 1992, when a half of its seventeen percent budget deficit was covered by international sources.¹⁴ By 2002, net financing from foreign donors reached US \$539 million—one third of its GDP.¹⁵ In 2001, its external debt was about US \$1.7 billion,¹⁶ and reached 2 billion dollars by the end of 2005.¹⁷ In other words, Kyrgyzstan's external debt surpassed its GDP!¹⁸ At the same time, the country experiences rising levels of poverty and brain drain. In January 2005, the average monthly wage was estimated at US \$54.9.¹⁹ In 2004, the minimum pension was US \$5.10 a month (which was 12 percent of the average wage of US \$42.50 during that year).²⁰ By 2003 estimates, about 50 percent of the population lived below the poverty line; this figure was about 80 percent in the southern regions.²¹ Poverty is especially acute in rural areas, where the average income is less than US \$1 a day.²² Since 1992, secondary school enrollment figures have steadily declined—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.²³ Public health has declined, previously rare diseases such as typhoid and tuberculosis have become common.²⁴ Many medical doctors and other professionals have left the country since 1992, and have left behind a huge shortage of trained professionals.²⁵

In 1998, the WTO accepted Kyrgyzstan as a member not because of its stellar economic performance, but for very pragmatic reasons. Kyrgyzstan is a landlocked mountainous country located far away from major international transportation routes. As such, Kyrgyzstan competes with no one in

¹⁴ See: M. Spechler, *Free Trade, Free Markets: Central Asia on the Edge of Globalization*, M.E. Sharpe, Inc., New York, 2004, p. 71.

¹⁵ See: *Ibidem*.

¹⁶ See: *Ibidem*.

¹⁷ See: K. Jenkins, "The Kyrgyz Revolution: One Step Ahead or Two Steps Back?" *Central Asia—Caucasus Analyst*, 21 September, 2005, available at [http://www.cacianalyst.org/view_article.php?articleid=3663].

¹⁸ See: M. Spechler, *op. cit.* According to the Purchasing Power Parity (PPP) method, Kyrgyzstan's GDP is U.S. \$8.5 billion (*The CIA World Factbook* 2005, available at [<http://www.cia.gov/cia/publications/factbook/>]); however, the PPP figures should be questioned when they derive from the economies that do not have developed political, financial, and legal institutions that are essential to fix the value of national capital, and generate wealth.

¹⁹ See: K. Jenkins, *op. cit.*

²⁰ See: "Country Profile: Kyrgyzstan," p. 6.

²¹ See: *Ibidem*.

²² See: *Ibid.*, p. 8.

²³ See: M. Ablezova, G. Botoeva, T. Jukusheva, R. Marcus, E. Satybaldieva, "A Generation at Risk? Childhood Poverty in Kyrgyzstan," *CHP Report No. 15*, The Childhood Poverty Research and Policy Center, 2004, pp. 41-46.

²⁴ See: *Ibid.*, p. 18.

²⁵ See: M.B. Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, United States Institute of Peace Press, Washington, DC, 1996, pp. 91, 98-99.

terms of offering major production or distribution structures or attracting them from its immediate neighborhood. When Bishkek was invited to join the WTO, all the neighbors 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 the area of the world that has been historically dominated by autocratic regimes. This step was also made possible by the fact that Kyrgyzstan had no chance of becoming an economic competitor to any other WTO player with or without some of its post-Soviet mercantile measures in place.

Kyrgyzstan achieved nothing from its WTO membership. A small and remote mountainous country rarely gains much by dropping its industrial and trade policies and opening up the economy to foreign imports. Since its inception at the end of the GATT Uruguay round, the WTO has mostly benefited developed industrialized nations, but not poor developing ones. As such this organization has been a failure in international trade. It is quite likely that the leadership of Kyrgyzstan joined the WTO because of their expectations of political benefits derived from the membership in this organization rather than for calculated economic advantages.

The Akaev regime was quite eager to follow measures of economic austerity and privatization imposed upon the country by the International Monetary Fund. The IMF demanded Bishkek to privatize national enterprises in a short time period, and Akaev and his associates were happy to oblige. Consequently, many major and important industrial assets ended up in the hands of the Akaev family and friends.²⁶ The rushed privatization had negative consequences: privatization proceeded without necessary legal and political structures being in place. There was no clear vision and only ambiguous regulations in managing monopolies and promoting fair competition.

It is interesting to note that the traditional Marxist and neo-liberal conceptions of methodology of economic development coincide when it comes to prescriptions given to countries in transition. Both schools insist that in transition the economy comes first and everything else just follows: according to Marxists it is the economic base that defines superstructure, and neo-liberals, whose economic dogmas have replaced those of Marxists in most former Soviet republics, insist on economic reforms first and assume that political and legal institutions will just fall in place. In fact, there is not a single historical evidence supporting “the economy first” model. There is not a single economically successful country in the world without well structured political and legal institutions. At the same time, all poor countries have had plenty of economically motivated revolutions and/or reforms.

It was no accident that the Tulip Revolution started in Jalal-Abad and Osh, in more agricultural areas of the country’s south. Among the demands imposed by the IMF had been privatization of agricultural land, and the abolition of agricultural and other subsidies.²⁷ Southern parts of Kyrgyzstan, where Osh and Jalal-Abad are found, 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

²⁶ See: M.B. Olcott, *Central Asia’s Second Chance*, Carnegie Endowment for International Peace, Washington, DC, 2005, p. 107.

²⁷ 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,” a paper presented to the International Conference in Honor of the Fifth Anniversary of the Kyrgyz Som—*Challenges to Economies in Transition: Stabilization, Growth and Governance*, Bishkek, 27-28 May, 1998, available at [<http://www.imf.org/external/np/eu2/kyrgyz/pdf/rathnam.pdf>].

them to Bishkek for trade. With agricultural and/or transportation subsidies being in place, they had better incentives of doing that. In other words, such subsidies kept people in southern Kyrgyzstan employed and provided them with some income. With the subsidies gone, the unemployment in southern rural areas increased, and uneven development between the country and the city became even more pronounced.

Further, in the 1990s, southern areas of Kyrgyzstan had more population than northern areas.²⁸ When land reform was 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 percent of the total arable land by the number of people eligible for the shares. Seventy-five percent of the arable land was distributed among the eligible citizens of Kyrgyzstan who were born before 1 January, 1996, and the remaining twenty-five percent has been reserved in 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."²⁹ This fact combined with the absence of agricultural subsidies relegated the southern areas of Kyrgyzstan to the situation of economic hardship and deprivation.

Kyrgyzstan's land reform was badly designed and implemented. There were substantial inequalities in land distribution, and corruption played its ugly hand in the process as well.³⁰ However, authorities' decision to rent the Land Distribution Fund property³¹ (created with the twenty-five percent 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 1 January, 1996, was clearly guided by the tenets of "trickle-down economics," an approach favored by the IMF and the World Bank. 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. In theory, others could do the same; however, developing countries that are members of the WTO, like Kyrgyzstan, constantly need loans from the IMF. The latter organization imposes measures of economic austerity on its clients that, among other policies, prohibit agricultural subsidies. Further, the IMF negotiates its deals with national government in great secrecy, and strongly discourages a release of its policy recommendations to the general public. There was no general political debate on IMF advocated reforms in Kyrgyzstan, and the public was not properly informed about them. Therefore, the residents of southern Kyrgyzstan could not possibly understand that their economic hardship was due to the economic reforms imposed by the IMF, but blamed their disadvantaged status on the fact that President Akaev was a northerner, and they supposed that he did not care about the south.

The north-south divide in the country is even further exacerbated by ethnic factors—just like everywhere else in Central Asia, Kyrgyzstan has sizable portion of national minorities. In the southern provinces more than one-third of the population is composed of ethnic Uzbeks. They are mostly not integrated with the majority, and largely reside in ethnically homogenous communities.³² The fact that after the land reforms of the 1990s the southerners ended up with only 0.19

²⁸ There has been a noticeable demographic shift in Kyrgyzstan since the 1990s, whereas many people migrated to urban areas and left mostly agricultural southern provinces, and moved to northern areas in search of employment.

²⁹ M. Ablezova, *et. al.*, *op. cit.*, p. 13.

³⁰ See: *Ibid.*, pp. 13-14.

³¹ See: *Ibid.*, p. 14.

³² See: M.B. Olcott, *Central Asia's Second Chance*, p. 108.

hectares of the arable land share per capita as opposed to 0.53 percent in the north, was also interpreted as a deliberate policy by the northern dominated Akaev administration to discriminate the Uzbek minority. The southern population of Kyrgyzstan is also more religious. With their ill-advised, planned, and implemented economic reforms, the IMF and the Akaev administration inadvertently created a fertile ground for such radical organizations as Hizb ut-Tahrir ("the Party of Liberation"), which reportedly pays its members between 50 and 100 U.S. dollars to distribute propaganda literature.³³ The main stated goal of Hizb ut-Tahrir is the creation (or "restoration," as they word it) of an Islamic caliphate state,³⁴ and as such it is an organization opposed to the idea of independent Kyrgyz statehood.

Essentially, the IMF, the World Bank, and the WTO have undermined the tenets of national sovereignty and statehood in Kyrgyzstan. Their policies have indirectly helped the groups like Hizb ut-Tahrir, as well as criminal groups to gain strong foothold in the country. Policymakers and bureaucrats of these powerful international institutions do not fully understand all the implications of their desires to have strong markets and weak state institutions in developing countries. The role vacated by weak political institutions are sooner or later filled by social, economic, religious, revolutionary or criminal institutions. In the West, where there are well developed civil societies and well functioning market institutions present, weaker state institutions do not normally create problems—the gap created by their departure is quickly filled by the market and/or civil society. However, in poor, developing, and transitional countries normally revolutionaries, radicals, extremist groups or even worse, criminals, replace the vacuum created by weak state institutions.

Hizb ut-Tahrir has so far maintained its non-violent status, but in the 1990s and early 2000, Kyrgyzstan experienced incursions by violent groups, notably by the Islamic Movement of Uzbekistan. In 1999, 2000, and 2003, Islamic insurgent and terrorist groups staged both major and minor incidents in the country. They have been active in the southern Kyrgyzstan, mostly in Batken and Osh.³⁵ The Osh area is also distinguished as a major transit region for narcotics and trafficking in people. Since 1992, narcotics production and consumption has grown significantly in the country. According to the 2005 estimates, Kyrgyzstan had the third highest rate of opium addiction in the world.³⁶

The practice of many farmers turning to subsistence crops damaged the country's exports and negatively affected national wealth. In 1990, about 50 percent of Kyrgyzstan's exports were agricultural. After sharp reductions in the 1990s, by the early 2000s agricultural production approached 1991 levels.³⁷ The country's arable land depends heavily on irrigation systems (about 70 percent).³⁸ 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."³⁹ As it was mentioned above, prior to the Tulip Revolution, the IMF had never failed to praise Kyrgyz reforms. A 2004 report by Anders Aslund praising economic reforms by Akaev, and predicting great success for his policies in the future (the Akaev regime lasted only nine months after

³³ See: *Ibid.*, p. 113.

³⁴ See: "Definition: The Reasons for the Establishment of Hizb ut-Tahrir," available at [<http://www.hizb-ut-tahrir.org/>].

³⁵ See: "Country Profile: Kyrgyzstan," p. 16.

³⁶ See: *Ibid.*, p. 15.

³⁷ See: *Ibid.*, p. 7.

³⁸ *Ibid.*, p. 4.

³⁹ M. Dabrowski, R. Antczak, *op. cit.*, pp. 24-25.

the publication of the report), reads like a motivational story written about a completely different country.⁴⁰ In 1995, the CSCE (now OSCE—the Organization for Security and Cooperation in Europe) praised as democratic the Kyrgyz parliamentary elections that were marred with incredibly flagrant irregularities.⁴¹ The stamp of approval by the CSCE was essential for both Akaev administration and financial donors to secure wide political support for future loans for the country. The 1995 OSCE report is in stark contrast with this organization's current attitude toward the country. Its current representative to Kyrgyzstan has recently declared that he "was upset with the absence of a consensus between the participants of the political process in the Republic of Kyrgyzstan." Ambassador Markus Mueller wisely added, however, that he was not panicking about the fact yet.⁴²

Foreign investors have not favored Kyrgyzstan much despite the laudatory reports by the IMF and others. The Canadian Kumtor Gold Company remains to this day the largest foreign investor in the country. An agreement between the Kyrgyz government and this Canadian firm was signed back in December 1992, without any other competing bids considered. Recently, Kumtor Gold Company was found guilty of tax evasion by a court in Bishkek—allegedly, for "many years" the company has not been paying land tax to the country, which by February 2006 amounted to 47 million soms, plus fines.⁴³

Conclusion

A major result of IMF's misguided demands and recommendations, and Kyrgyzstan's membership in the WTO has been a U.S. \$2 billion foreign debt, the amount equivalent to the nation's GDP. The IMF has only recently noticed that the Kyrgyz economy faces a severe crisis, but not the fact that this crisis is a direct result of IMF's irresponsible policies in the country. The foreign debt of Kyrgyzstan has reached dangerous levels, and debt service adds major strain on its economy. More than 50 percent of the country's population, and almost everyone in rural areas live in absolute poverty.

The Doha round of the WTO, which was concluded in December of 2005, ended up in a failure. Kyrgyzstan gained nothing from its membership in this organization—its remote location prevented it from developing new trade partnerships beyond its traditional partners in the region.⁴⁴ It is unlikely that Kyrgyzstan will gain much from the WTO, whether a new round manages to revamp it or not. While the more affluent members of the WTO are busy negotiating new deals, Kyrgyzstan could take advantage by developing its own industrial and/or trade policies. The new Kyrgyz government has to take notice of major mistakes its predecessor made, and misguided advises their country received from

⁴⁰ See: A. Aslund, *The Kyrgyz Republic: Reinforce Economic Growth through Lower Taxes and Better Governance*, published by *Carnegie Endowment for International Peace*, 17 June 2004. Professor Aslund worked as an economic advisor to President Akaev from 1998 to 2004, a position funded by the United Nations Development Program. There could be a good explanation why his 2004 report reads like a work of fiction—as he acknowledges in the Introduction of his report, his analysis is based on his visit to Kyrgyzstan in May 2004, when he spent one week and one day in the country, "and extensive reading of analytical reports before and after that trip" [<http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=1564&prog=zru>].

⁴¹ See: E. Huskey, "Kyrgyzstan: the Fate of Political Liberalization," in: *Conflict, Cleavage, and Change in Central Asia and the Caucasus*, ed. by Karen Dawisha and Bruce Parrot, Cambridge University Press, Cambridge, 1997, p. 261.

⁴² See: "Glava missii OBSE v KR: My ne khotim panikovat", no rasstraivayet otsutstvie konsensusa sredi uchastnikov politicheskogo processa v KR," *Akipress Information Agency*, 17 February, 2006, available at [<http://news.akipress.org/news/26118>].

⁴³ See: "'Kumtor' proigral isk," *Moya Stolitsa*, 17 February, 2006, available at [<http://www.msn.kg/page.shtml?option=item&year=6&mon=2&id=13017>].

⁴⁴ See: "Country Profile: Kyrgyzstan," p. 8.

the IMF. It is fashionable in post-Soviet states to blame corruption and mismanagement for reform failures. 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 imply the existence of some ideal economic situation in Kyrgyzstan that are devoid of reality and can never materialize in that country or anywhere else.

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—considering what gold and other metal prices are today, it is most unlikely that Kyrgyz or any other gold export will be penalized by trade tariffs or non-tariff barriers. Even if Kyrgyzstan violates WTO rules it is unlikely ever to register with bigger trade players, and if Bishkek drops its membership in this organization it may only benefit the country. There will always be need for gold, and buyers of various metals Kyrgyzstan has to offer, no matter a seller is a member of the WTO or not. With rising energy prices and Kyrgyzstan's abundant hydropower and coal reserves, Bishkek should not have problems attracting investors or raising funds to supply electricity to its neighbors, especially to 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, as trade relations have increased and the border issues have been settled. 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, now 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, and China's rising appetite for energy. Indeed, in September 2005, the new administration of President Kurmanbek Bakiev, who was elected in July 2005, reassured Washington that the U.S. troops in Manas may remain there until stability is achieved in Afghanistan.⁴⁵ In the same month, Bishkek signed a bilateral agreement with Moscow, which envisions expanded Russian military aid, arms sales, and aid in building energy infrastructure.⁴⁶ Turkey, Kyrgyzstan's natural ally, and other Middle Eastern countries could also help with new venues of bilateral opportunities. Kyrgyzstan will also benefit from closer ties with South Korea and Japan, and an emerging economic giant, India.

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 Islamic militancy or something else. The country also needs help from major powers with vested interests in Central Asian security and stability, Russia, the United States, 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 focused more on the country's bilateral links and relations.

⁴⁵ See: *Ibid.*, p. 14.

⁴⁶ See: *Ibid.*, p. 13.