

Central Asia Contingencies

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ASSESSMENT OF POLITICAL AND ECONOMIC STABILITY

Is Central Asia stable? And to the extent that it is not, can the United States and China cooperate to forestall threats and help their partners in the region manage challenges to stability?

Central Asia is a diverse and complex area with six independent countries—Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan—five of which emerged from the Soviet collapse.* Broadly speaking, Central Asian state building has delivered mixed results. Most Central Asian states remain fragile. Social tensions persist. All of the region's economies, albeit in widely varying degrees, remain vulnerable to external or internal economic shocks.

Kazakhstan has achieved relative stability, and Turkmenistan, too, is largely stable, albeit on a less encompassing scale. But the explosion of Kyrgyz-Uzbek ethnic clashes around Osh and Jalalabad in June 2010 underscores deeper vulnerabilities in the three countries that share borders in the Fergana Valley—Tajikistan, Uzbekistan, and the Kyrgyz Republic. Those events demonstrated just how rapidly social violence can escalate in scope and scale.

Tajikistan, in particular, is increasingly vulnerable to instability—first, because of the country's food crisis (prices for wheat, meat, and dairy products have risen some 30 percent since April 2011); second, due to violence associated with transborder narcotics trafficking; third, given the threat of terrorism and resurgent civil violence, especially if militant fighters again penetrate the Tajik border from Afghanistan; and fourth, considering the possible failure of state institutions. And

*Afghanistan is an essential part of Central Asia but presents distinct challenges in the region. Thus this memo seeks to highlight these five other countries.

Tajikistan is not the only Central Asian state with the potential to fail in the next decade.¹

The reasons for this fragility are both economic and political. Economically, and notwithstanding impressive growth rates, most Central Asian economies are brittle and their underlying fiscal fundamentals are poor. In some countries, labor remittances have fluctuated, although more recent trends suggest a rise in labor outmigration and a rise in revenue from potential remittances—for example, as thousands have fled Kyrgyzstan over the past year. Imported inflation from rising global food and commodity prices holds the potential to exacerbate social and political tension.² Governance in Central Asian countries has been weakly responsive to popular demands, and political patterns differ across the five countries. For the most part, however, politics, governance, and the division of national wealth remain disproportionately managed by national elites.

The influence of criminal groups has grown in several Central Asian countries—most notably the Kyrgyz Republic.³ In some states, a combustible mix of corruption, narcotics, poverty, joblessness, and terrorism threatens states, economies, and social cohesion. In such an environment, transnational cooperation is essential, both to generate economic opportunities and to assure security. But such cooperation has proved elusive. External powers, not least the United States, have often shown greater enthusiasm for regional cooperation than Central Asian capitals themselves. Independence erected international borders where none had existed, separating upstream water resources, for example, from downstream farmers and fields. In the Soviet period, Moscow often settled disputes by administrative fiat. But independent Central Asian governments, no longer able to rely on Soviet diktat, have been forced to negotiate complex intergovernmental agreements on everything from crossing a border to sharing water. And in most cases, they have failed to reach effective, much less enduring, agreements.

What accounts for such fragilities in some of Central Asia's new states? At least some of the reasons derive from a poisonous combination of landlocked geography and poor economic policy. In the seventeenth century, the marginal cost of maritime trade dropped below the cost of continental trade. Central Asia, which once had been integral to the Silk Road and the great caravan trade, was pushed to the fringes of the world economy. Landlocked countries, such as those in Central Asia, can face a growth deficit as high as 1.5 percentage points because

transaction and other costs are so high.⁴ Thus, reconnecting Central Asia to the global economy through infrastructure and market forces is essential to bolstering opportunities for growth and security. Regional economic integration through tariff reduction and related measures can, in turn, facilitate such external linkages.

These economic risks to stability suggest that micro- and macro-economic reforms will be necessary if Central Asian countries are to maintain growth, create opportunity, and attract and sustain inflows of foreign capital. However, the pace and scope of reform have varied widely across countries, and the need for capital has only grown. While total emerging market private capital inflows tripled in the three years prior to the 2007 peak of the global credit bubble, investment flows to Central Asia remained low, in part because barriers to investment are so high.⁵

At the same time, traditional social and political risks to stability endure. Central Asian countries would be more stable today if the region's leaders had set up institutions that were more responsive to popular expectations and demands. As with their economies, political experiences and practices have diverged in Central Asia. The development of civil society in, for example, Kyrgyzstan has gone much further than in Uzbekistan, where the development of such outlets remains constrained. But, generally speaking, reform of state institutions and improvements in the quality of governance will increase the chances of state success as social pressures rise.

Across the region, better governance and some institutional reforms will be necessary in coming years. Tajikistan, in particular, faces a gathering crisis of governance as state institutions continue to fail to meet popular expectations. The results are evident in Kyrgyzstan too, where popular discontent has overthrown two Kyrgyz presidents in just five years. There is no one-size-fits-all solution to this problem because Central Asian countries are diverse. As they develop, their political forms may diverge. But all Central Asian states will remain vulnerable, to varying degrees, if they fail to tackle corruption, establish credible legal systems, enforce contracts, and make institutions more responsive and predictable.

Two final ingredients will be important to assuring regional stability in coming years: stable and legitimate political successions and effective management of security risks. More predictable institutions can help to assure an orderly transfer of power as Central Asia's aging presidents

leave office in coming years. These transitions will come, ultimately, in every country in the region. Yet they will each play out differently. Successions in some Central Asian countries could be contested—both *among* elites and *between* elites and the populace more broadly.

Security, too, remains a risk, not least because Central Asia's security environment could deteriorate in tandem with the prevailing environment in Afghanistan. In 1999 and 2000, extremist fighters sheltered by the Taliban entered the Kyrgyz Republic. Such threats remain palpable, not least for Tajikistan but for other countries as well. The Taliban's rule and al-Qaeda's presence to the south were once viewed as principal threats to security across Central Asia. As the United States and its coalition partners scale down their military commitment in Afghanistan in the run-up to 2014, security realities in Afghanistan will matter greatly to Central Asian stability.

U.S. AND CHINESE INTERESTS IN CENTRAL ASIA

Against this dynamic backdrop, the United States has some enduring interests in Central Asia. Four main objectives have guided U.S. policy across four administrations through the entire post-Soviet period since 1991:

- To preserve the independence of these five Central Asian states and their ability to exercise sovereign political and economic choices, free from external coercion.
- To diversify transit options, thereby reducing the dependence of Central Asian economies on a single market, infrastructure link, and/or point of transit.
- To build institutional capacity so that states can govern effectively and justly, deliver services, and resist pressure from those who seek to violently overthrow legitimate institutions.
- To reconnect this landlocked region to the global economy, increasing the prospects for sustainable economic progress.

Ultimately, all four of these U.S. objectives are linked.⁶ In the energy sector, for instance, one of the most prominent and longstanding U.S.

initiatives has been to create trans-Caspian oil and gas pipelines. In doing so, the United States has aimed to bolster Central Asian independence by fostering new economic opportunities for hydrocarbon producers, such as Kazakhstan and Turkmenistan. And recently, the United States, working in concert with major international financial institutions, has undertaken an effort to reconnect Central Asia's electricity and road infrastructure to South Asia. Over a longer time horizon, that second effort has aimed to provide similar benefits to Central Asia's non-hydrocarbon producers, such as Kyrgyzstan and Tajikistan, which hold rich hydroelectric resources. Put simply, by getting economic policies and priorities right, the United States has aimed to bolster a broader strategic objective of providing options, choices, and alternative opportunities to Central Asian countries.

China, too, has important and expanding interests in Central Asia. Beijing's major initiatives appear to include the following:

- To assure security and stability in China's western provinces and along China's continental Asian border.
- To satisfy energy and related economic goals—first by diversifying China's sources of resource supplies, and second by diversifying options for transit and transportation. Access to oil from Kazakhstan, gas from Turkmenistan, and agricultural and mining resources from other countries aim to satisfy this objective.
- To assure the political stability of Central Asian countries themselves.
- To assure that no other external power—particularly the United States—advances its interests at China's expense, for example through military deployments or permanent basing arrangements.

POTENTIAL AREAS OF COOPERATION AND FRICTION

The United States and China, for all their strategic rivalry, have some unexpected common ground in Central Asia.⁷ The fact is, Beijing and Washington do not need joint approaches to pursue strategic cooperation, only mutually beneficial ones. In Central Asia, where Russia has had a near hammerlock on the region's oil and gas for decades, Beijing's new assertiveness has come principally at Moscow's expense. And in

the short term, this means that U.S. interests in Central Asia are more closely aligned with Chinese than with Russian objectives.

WHY?

As noted earlier, a principal strategic problem in Central Asia is geography. Landlocked economies can face a growth deficit as high as 1.5 percentage points because transaction and other costs are so high. Anything that reconnects Central Asia to the world economy—and reduces its dependence on a single point of transit—will benefit the region. Such moves also give the United States a strategic advantage by bolstering Central Asian sovereignty and independence.

In recent years, China has become a crucial source of trade, investment, and finance for Central Asia. But just a decade ago, the picture was dramatically different. For example, in 2000, just 3.8 percent of Central Asia's trade was with China, a stark contrast to the 26.7 percent of total trade the region conducted with Russia. By 2010, China's share of Central Asian trade had grown more than six times, to 24.4 percent, while Russia's had shrunk by about a quarter, to 19.6 percent. Dollar figures show this role reversal even more starkly: China–Central Asia trade was a paltry \$1 billion in 2000, but it grew by a staggering 30 times to \$30.4 billion in 2010.⁸

In the broadest sense, U.S. and Chinese interests are, at least for the moment, aligned in Central Asia. Over time, however, the following three baskets of issues are likely to intensify bilateral frictions.

CHINA'S LENDING PRACTICES

To address underlying economic challenges to stability in Central Asia, it is widely accepted in the United States that micro- and macroeconomic reforms will be necessary. Yet China's lending practices do not, when viewed from Washington, do much to serve this goal. China is providing billions in loans to Central Asian countries—some \$10 to \$15 billion for Kazakhstan,⁹ \$8 billion for Turkmenistan,¹⁰ more than \$603 million for Tajikistan,¹¹ and a \$10 billion loan facility to members of the Shanghai Cooperation Organization through China's Exim Bank and other development banks.¹² China's conditionality, however, diverges sharply from that associated with the Bretton Woods institutions, whose lending and activities in Central Asia the United States has long supported.

Chinese lending institutions often impose conditions that require recipient countries to buy and hire from China. This kind of conditionality has been widely criticized in the United States for its lack of focus on reducing graft, increasing transparency, improving economic incentives, or improving conditions at the firm level. Many analysts in the United States have argued that China's lending and commercial practices in Central Asia are eroding the reform message that the United States and international financial institutions have promoted globally.¹³

DIVERGING VIEWS OF POLITICAL AND INSTITUTIONAL REFORM

Chinese and U.S. policymakers frequently argue that stability is important in Central Asia. Yet while Americans have promoted political and institutional reforms as a means to achieve this goal, China, in rhetoric and practice, has been suspicious of U.S. intentions and leery of the results.

Across four administrations, from George H.W. Bush to Barack Obama, U.S. policy has generally hewed to the belief that sustained stability in Central Asia will require not just security but a broadened stake for citizens in their own governance and development. Without legitimate institutions, U.S. policymakers have argued, citizens could turn to less productive avenues and violent means of promoting change.

Market-based economic prosperity, free and open trade, and stronger labor protections are viewed in Washington as essential for Central Asia, although they are unlikely to be achieved broadly or uniformly anytime soon. No less important, the United States has urged greater political, press, social, and economic freedoms, as well as the reform of political institutions, to reinforce economic successes.

China, broadly speaking, has been deeply skeptical of these U.S. initiatives and has not prioritized them in its own policy toward the region. Indeed, many Chinese commentators have argued that Washington aims, through its advocacy of political reforms, to impose U.S. values on Central Asia.

DIVERGING VIEWS OF U.S. SECURITY ACTIVITIES

Beijing and Washington both view enhanced security capacity as necessary to assure stability in Central Asia for the longer term. But China is deeply ambivalent about U.S. security objectives and activities.

From an American perspective, such activities symbolize a long-standing U.S. commitment to address security-related risks to stability. But U.S.-China cooperation on Afghanistan and Central Asia has been weak.¹⁴ Moreover, past and present U.S. basing and transit arrangements have become a source of U.S.-China friction. China has not welcomed a U.S. military footprint across its western frontier.

The United States has an active program to train and equip Central Asian armed forces. More often than not, these efforts been directed at enhancing capacity to address the challenges that China's threat assessments prioritize—terrorism, narcotics, and other transnational sources of security risk. The United States provides robust security assistance to four members of the Shanghai Cooperation Organization (SCO). Washington has donated patrol boats to the Kazakhstani and Uzbekistani maritime border guards; refurbished border posts in Turkmenistan, Tajikistan, and Kyrgyzstan; and helped build the Tajik and Kyrgyz national drug control agencies with financial grants, technical expertise, and other forms of support. The United States has also sought to help Kazakhstan acquire refurbished Huey helicopters for its rapid reaction forces. Washington has worked to rebuild Kyrgyz military aviation. It also runs long-standing export control and border security programs.¹⁵

While such U.S. programs serve China's declared security interests in Central Asia, Beijing and Washington continue to watch each other warily in the security sphere. This situation is partly a function of a 2005 SCO declaration, which China joined, that called for a timeline for ending the coalition military presence in Afghanistan.¹⁶ It also stems from some Americans' suspicions about China's motives.

Looking ahead, the drawdown of U.S. forces in Afghanistan will, unavoidably, prompt serious questions in Central Asia about America's commitment and "staying power" in the region. By contrast, some people in China will argue that residual U.S. efforts aim principally to assure a permanent presence and footprint.

POLICY RECOMMENDATIONS

It will take time to build bilateral trust and a strong foundation for U.S.-China cooperation to address stability risks in Central Asia. However, these broad guidelines may be useful:

- *Dialogue is not a policy.* Dialogue for its own sake has not, in the past, proved especially useful. The United States and China have held routine dialogues on Central Asia since at least 2006. An institutionalized Central Asia sub-dialogue was established in December 2005 in the wake of a meeting of the U.S.-China Senior Dialogue in Washington between Vice Foreign Minister Dai Bingguo and Deputy Secretary of State Robert B. Zoellick.¹⁷ Numerous rounds of these talks have been held with the Bush and Obama administrations, but the quality of the conversations has been mixed and few, if any, coordinated actions have emerged from it.
- *Because dialogue and coordination have been weak, the United States and China should aim at complementary, but not necessarily joint, projects and actions.* Of course, the United States and China need, in the first instance, to establish more transparency and a better mutual understanding of each other's strategic intentions. To that end, the sub-dialogue and similar meetings can assure that each government is well briefed on bilateral developments with Central Asia and kept abreast of each other's intentions. But both countries are active with capacity-building programs and projects and it is important to remember that *complementary* projects and actions need not be conducted jointly. One example is counternarcotics work: China works bilaterally and through the SCO; the United States works mostly bilaterally through security assistance and capacity building. Washington and Beijing can coordinate their areas of focus, direct their respective financial assistance packages at similar drugs-related goals, and build complementary capacity while maintaining separate efforts.
- *The most promising arena for cooperation is economics.* Given the many economic risks to stability in Central Asia, Washington and Beijing should seek to lend additional impetus to the Asian Development Bank's (ADB) Central Asian Regional Economic Cooperation (CAREC) program, which now includes ten countries (six in Central Asia, including Afghanistan, as well as Azerbaijan, China, Mongolia,

and Pakistan) and six international financial institutions. For its part, the United States should revisit a stalled 2007 effort to work with the ADB and two additional partners—Japan and the European Union. In 2007, the EU refused to join a U.S. and Japanese effort to create a forum between CAREC and the world's three major market economies to be called CAREC Plus Three. However, if Washington and Tokyo approach Brussels again, they could still form a powerful pro-market nexus, working closely with other countries and the major international financial institutions. Together, Washington, Tokyo, and Brussels could aim to give market approaches a new push in the region. As a CAREC member that aspires for recognition with market economy status, China's support of such an effort would be particularly useful.

- *Avoid security as an area for U.S.-China cooperation, at least for now.* Bilateral U.S.-China security cooperation in Central Asia, which will be difficult to achieve, is unnecessary at this time. The United States can continue to place its principal emphasis on working with Central Asian countries themselves, while Beijing will continue to primarily use the SCO for promoting security-related measures. Should the United States cooperate with, or perhaps even join, the SCO? The issue is unlikely to ever be seriously considered. Even without the many other reasons that fuel American skepticism, Iran's observership in the group makes the prospect especially improbable. The United States has not been invited to join the SCO, and SCO members would probably not agree if the United States were to seek it. But informal U.S.-SCO discussions are worth pursuing on an ad hoc basis, building on participation by a senior U.S. representative in an SCO discussion of Afghanistan in March 2009.¹⁸ That meeting was a model of timely, mutually beneficial, and topically specific discussions with the SCO, organized along functional lines. As the United States draws down militarily from Afghanistan in coming years, it will be necessary to explore how regional players intend to posture themselves politically and strategically—and to assure that their actions remain consistent with U.S. interests and objectives.
- *The United States and China should aim to improve coordination but will likely fail at joint contingency planning.* It could hardly hurt to conduct confidential discussions about specific transnational risks, in particular food security. At a minimum, that issue could provide useful touch points about how each country would respond to crisis conditions in

Central Asia. But U.S.-China coordination will continue to be difficult—first, because China does not share American threat assessments; second, because China does not support the U.S. approach to political or economic reform in Central Asia; and third, because countervailing interests, clashing security concepts, and mutual suspicions will remain an obstacle for some time.¹⁹ Coordination will remain challenging, however, as the United States must continue signaling to Central Asians that they are the main subject of U.S. policy, not an object of accommodation with a third country, including China. And the United States must remember, too, that anti-Chinese feeling in Central Asia is significant and growing; the latest protest in Kazakhstan, on May 28, 2011, drew a thousand people in Almaty. Still, contingency discussions of, for example, donor principles and modalities in a prospective food crisis could begin to at least build a platform for better U.S.-China coordination in the future.