



CAP CENTRAL ASIA PROGRAM

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STRATEGIC
NODES
R E G I O N A L
and **INTERACTIONS**
S O U T H E R N
in **EURASIA**

STRATEGIC NODES AND REGIONAL INTERACTIONS IN SOUTHERN EURASIA

Marlene Laruelle, editor

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The volume provides academics and policy makers with an introduction to current trends in Southern Eurasia. At the collapse of the Soviet Union, Western pundits celebrated the dramatic reshaping of regional interactions in Southern Eurasia to come, with the hope of seeing Russia lose its influence and be bypassed by growing cooperation between the states of the South Caucasus and Central Asia, as well as the arrival of new external powers. This hope has partially failed to come to fruition, as regional cooperation between the South Caucasus and Central Asia never started up, and cooperation within these regions has been hampered by several sovereignty-related and competition issues. However, a quarter of century after the disappearance of the Soviet Union, strategic nodes in Southern Eurasia have indeed deeply evolved. Some bottom-up dynamics seem to have taken shape and the massive involvement of China has been changing the long-accepted conditions in the wider region. Islamic finance has also emerged, while external actors such as Turkey, Iran, the Gulf countries and Pakistan have progressively structured their engagement with both Central Asia and South Caucasus. Another key node is centered in and around Mongolia, whose economic boom and strategic readjustments may help to shape the future of Northeast Asia.

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PART I.

CENTRAL ASIA AND THE CASPIAN REGION

Regional Cooperation in Central Asia: Nurturing from the Ground Up

Aitolkyn Kourmanova¹ (2013)

The countries of Central Asia have long been unable and unwilling to develop regional cooperation. Unwillingness to engage with competing neighbors, inability to address emerging conflicts around water and land resources, borders or ethnic minorities, and a resulting failure to produce any kind of sustainable regional cooperation platform, should be regarded primarily as a leadership failure. Indeed, the authoritarian leaders of Central Asia, in the first stage of post-colonial nation-building, have prioritized insular national interests and pursued a narrow definition of sovereignty, opposing any kind of supranational authority. In addition, current elites derive significant income from utilizing deficient economic structures based on natural resources and have been unable to institute structural reforms.

Two decades after independence the region remains poorly industrialized, with multiple barriers to regional trade, rigid political structures, and an unstable business climate, all of which have failed to attract diversified foreign direct investment (FDI). Current economic strategies, mainly based on managing the legacy of Soviet industry and infrastructure, are exhausted, and the coming power transfer in Uzbekistan and Kazakhstan is seen as a moment of political fragility that opens the door to a potentially deeper change in the regimes' legitimacy and the intra-elite sharing of resources. Meanwhile, the global context is changing as well: changing world energy patterns with the shale and fracking revolutions and post-2014 security priorities have made the region less important for the West, especially the United States.

These developments may impact the way elites and some social groups in Central Asia perceive the future of regional cooperation. The Kazakhstan-Uzbekistan strategic partnership treaty, signed on June 14, 2013, according to which the presidents of both countries have indicated that “in the conditions of the continuing world

financial and economic crisis it is in the interests of both countries to maintain and increase trade dynamics,”² indicated a renewed—even if only theoretical—interest of Central Asian elites in regional cooperation. But even more important than inter-state declarations are grassroots dynamics, which will likely drive a more genuine and powerful demand for regional cooperation.

This paper argues that the countries of the Central Asia region need to cooperate economically as this will help to bring tangible economic gains to wider groups of the population. It develops three core arguments: 1. Regionalism in Central Asia is one of the few available instruments to address the region's mounting social and economic problems; 2. Regional cooperation is likely to be driven by bottom-up dynamics rather than the other way round; 3. New ideas on developing organic regionalism and fostering regional linkages will likely be addressed by business circles and the next generation of elites.

External Actors: Allies or Adversaries to Central Asian Regional Integration?

Since the Central Asian countries' independence, external actors have been both willingly and unwillingly involved in the debate over regional cooperation, and some of them have directly participated in fostering it, often with underlying geopolitical agendas that complicate, more than they solve, the issue of regional cooperation.

Throughout its history, Central Asia has never really displayed political consolidation from within but, rather, was influenced from the outside, being the subject of various conquests from the east, south, and north. In post-Soviet times, the countries of Central Asia have been subject to complex global geopolitical forces, primarily with regard to energy and post-9/11 security, which has arguably drawn the region's states further apart from each other, instilling highly complex external vectors into their political agendas. But with Western energy markets becoming targeted more toward unconventional resources, and the international community's growing

1 GW's Central Asia Program Fellow, now Central Asia Program Assistant, and Chief Editor of Central Asian Analytical Network.

2 “President Kazakhstana zavershil vizit v Uzbekistan,” *UzDaily*, June 15, 2013 <http://www.uzdaily.uz/articles-id-16026.htm>.

disinterest in Afghanistan's future, the region is starting to realize that the conventional "Great Game" is probably over, and that, instead, regional games will likely become more the order of the day. These will involve mostly Russia and China, as well as "second-order" neighbors, whether close or more distant, such as Iran, the Gulf countries, and South Asian nations.

The United States has never had a close engagement strategy for Central Asia nor compelling interests in the region.³ With the decrease of involvement in Afghanistan, post-2014 American interests will probably focus again on building democracy and market reforms, but with low political and financial direct involvement. A good example of this evolution is the "new Silk Road" strategy launched in 2011 by State Secretary Hillary Clinton, which aims at linking Central Asia with South Asia through Afghanistan's regional integration process. Seen as a way to indirectly facilitate trade liberalization, so far this strategy has lacked the necessary financial resources and other mechanisms to implement what could be bold vision.

For its part, meanwhile, Russia's interests in the region mainly serve to prevent Central Asian unity. First, Russia interprets Central Asian regional integration as subordinate to a larger Eurasian regionalization under its leadership. As Uzbekistan and Turkmenistan reject the latter, any Central Asian integration project comes up against the relationship with Moscow. Second, Russia's economic integration model is not based on purely economic grounds, but has political importance in terms of recognizing Moscow's leading role. Third, Russia does not offer any clear modernization strategies for the economies of Central Asia, but it also suggests a mere update of the old Soviet linkages between the Central Asian resource base and Russian processing facilities. This results in less imported technology from the more technologically advanced European Union and other countries, thus incurring a loss in productivity gains in the long run.

A suggestion of the head of Russia's State Anti-Drug Committee, Viktor Ivanov, to industrialize the region and create jobs by setting up a Central Asia Development Corporation—which would finance and implement a number of projects in Central Asia in the fields of energy, food security, construction of new industrial enterprises,

and training of new cadres—could in theory have a modernization component,⁴ but it needs a multi-million dollar investment which Russia is probably unable to provide.

That said, Russia is also facing drastic domestic changes that could impact the future of any Eurasian integration. Central Asia is mostly seen as an economic burden by Russia's new elites. According to Rajan Menon, "even the most nationalistic of Russian politicians do not seriously entertain the possibility of re-gathering this former domain, and few if any Russians want that responsibility, and certainly not the costs that will accompany it."⁵ Furthermore, any stable, conflict-free Russian-Central Asian relationship is more likely to develop if democracy takes firm root in Russia.

Compared to the U.S.'s minimal role and Russia's own Eurasian strategy, China is probably the only external actor who can both gain and help support Central Asian regional integration. Contrary to Russia, for which a Central Asian unity is detrimental to its own economic interests, China would only gain from more cooperative dynamics in the region, as they would foster and not hamper its own investment projects—which include trade and transport infrastructure, new transit opportunities in the China-Europe corridor, transportation of natural gas from Turkmenistan to China, and so on. The region's membership in the World Trade Organization (WTO) is also preferable for China, rather than the Russia-backed Customs Union, which seems to be a closed regional bloc and, as such, is more autarkic than cooperative towards the rest of the world.⁶

Moreover, as Beijing is aware of its "neo-imperial image of a hunter for natural resources," it tries to deflect from such images by investing in community development, diplomacy, soft power, and cultural and intellectual exchanges, which suggest that it has more sustainable interests in the region.⁷ China's role in contributing to Central Asia's integration is based not on the Shanghai Cooperation Organization (SCO), which is mostly a security structure, but on its bilateral and region-based investments. That said, even if China can contribute to fostering increasing Central Asian unity, this would not necessarily give the region more room for maneuver, and could on the contrary strengthen Central Asia's dependency on China's economic power.

3 Boris Rumer, ed. *Central Asia at the End of the Transition* (Armonk-London: M.E. Sharpe, 2005), 29.

4 The project was supported by Yuri Krupnov, Chairman of the Development Movement, who wrote on his web-site that "a New Middle Asia will unite Russia, China, Afghanistan, Mongolia, Azerbaijan, Turkey, Pakistan, and the Central Asian countries where Russia will pursue the main objective of industrializing the region of Central Asia and Afghanistan," <http://krupnov.livejournal.com/>.

5 Rajan Menon, "Central Asia in the 21st Century," in Boris Rumer, ed., *Central Asia. Views from Washington, Moscow and Beijing* (London: M.E. Sharpe, 2007), 15.

6 Nargis Kassenova, "Kazakhstan and Eurasian Economic Integration: Quick Start, Mixed Results and Uncertain Future," Paris: IFRI, *Series Russie. NEI. Vision* No. 14, November 2012.

7 Wang Jisi, *Marching Westwards: The Rebalancing of China's Geostrategy* (Washington, DC: Center for International and Strategic Studies, 2012).

Several multilateral organizations are also involved in fostering regional cooperation, most notably the Asian Development Bank and the Central Asia Regional Economic Cooperation (CAREC), which has facilitated over \$20 billion in infrastructure and investments since its inception in 1997.⁸ New infrastructure would help to turn such geographical factors as distance from main markets and landlockedness from an insurmountable barrier to trade with the rest of the world to an advantage in trade with China and the greater Asian region. Some analysts argue that the region has already started a larger process of continental integration of the Eurasian economic space, one which entails a shift from the countries of the region “being landlocked to land-linked.”⁹

This is a new concept which is focused on diversifying the region’s interactions away from its previous European/Russian vector and instead envisaging a broader Asian market. Nevertheless, for this to be achieved, the region is highly dependent on the international community’s leadership. Currently it faces acute geopolitical contingencies, especially related to Afghanistan’s stability, the India-Pakistan relationship, and the need to reintegrate Iran into the regional game.

Where to Begin? Why Economics Is the Obvious Lever for Integration

In this complex environment in which international and regional external players are unavoidable, how can Central Asia organize itself from within? The availability of a wide range of possible regional cooperation models somewhat complicates the “kick-starting” of regionalization in Central Asia, which is understood as “an active process of change towards increased cooperation, integration, convergence, coherence and identity.”¹⁰

While models of economic regionalism are viewed relatively favorably in the region, those involving political issues are unlikely to emerge: having long been members of the Soviet bloc, the governments of Central Asia dislike any references to union models that require greater political will and a certain loss of sovereignty.¹¹ As Linn and Pidufala point out, “even use of the term ‘integration’ is often viewed with suspicion in Central Asia, since it is

felt to imply a reversal toward the way Soviet Republics related to each other—managed by a Moscow-based central authority which dictated what was to be invested, produced and distributed in each republic.”¹² Even after having joined the Russia-led Customs Union, President of Kazakhstan Nursultan Nazarbayev advances cautious statements—which serve as a caveat for his more nationalist-minded electorate—that integration within the Customs Union is based on purely economic drivers and does not foresee any political integration.¹³

Security-based regional cooperation is also limited. It has been one of the main focuses of the international community and the region’s main external actors, especially through the CSTO (Collective Security Treaty Organization) and the SCO. However, security-based cooperation has proven far from successful, for three main reasons: 1. None of the existing organizations include all five of the Central Asian states, but all of them include external actors with their own geopolitical agendas. They thus do not represent a genuine intra-Central Asia trend; 2. They are declarations of intent based more on shared threat perceptions (Islamic risks, terrorism, and so on) than on efficient mechanisms, and avoid addressing real security challenges such as water; 3. The security interests of the current Central Asian elites are opaque and centered on their own narrow, regime security-oriented interests. Therefore, initiatives in this area are usually perceived with skepticism by local populations, who do not see themselves as the main beneficiaries of security-oriented regional cooperation frameworks.

Central Asia’s resource-related economic backwardness became “structured” back in Soviet times while the region’s demographic boom during the Brezhnev era underscored the inability of the Soviet system to offer job opportunities and industrial development in all the southern republics.¹⁴ Despite varying success in implementing broad economic reforms in the 1990s, Central Asian states remain heavily dependent on energy, extractive industries, and grain and cotton as their main export commodities. This is particularly true of Kazakhstan which has been experiencing the phenomenon of “Dutch disease” with the oil sector dominating the economy and

8 *The New Silk Road and Regional Economic Integration*, Remarks by Robert O. Blake, Jr., Assistant Secretary, Bureau of South and Central Asian Affairs, US Department of State, March 13, 2013, <http://www.state.gov/p/sca/rls/rmks/2013/206167.htm>.

9 Johannes Linn, “Central Asian Regional Integration and Cooperation: Reality or Mirage?” in Evgeni Vinokurov, ed., *Eurasian Integration Yearbook of the Eurasian Development Bank* (Astana: EDB, 2012), 96–117.

10 Allison Roy, “Regionalism and Security in Central Asia,” *International Affairs* 80, no. 3 (2004): 465.

11 Richard Pomfret, “Regional Integration in Central Asia,” *Economic Change and Restructuring* 42, no. 1–2 (2009): 71.

12 Johannes Linn and Oksana Pidufala, *The Experience with Regional Economic Cooperation Organizations. Lessons for Central Asia* (Washington, D.C.: Wolfensohn Center for Development, 2008): 18.

13 See, for example, Nazarbayev’s statement as regards the Customs Union: “I want to once again reiterate that there will be no planned transfer of political functions to supranational bodies which could deter countries’ sovereignty. We are talking exclusively about economic integration,” http://www.akorda.kz/ru/page/page_214000_segodnya-v-akorde-prezident-kazakhstan-nursultan-nazarbaev-prinyal-uchastie-v-zasedanii-vysshego-evraz.

14 Robert A. Lewis, Robert R. Churchill, and Amanda Tate, eds., *Geographic Perspectives on Soviet Central Asia* (London, New York: Routledge, 1992).

the manufacturing sector shrinking rapidly. In addition, the country has been hit hard by the recent financial crisis and its oil and mining sectors are losing their investment attractiveness. Hence for Kazakhstan, the imperative of attracting FDI is acute—an issue that the government is preoccupied with—and especially in the light of increasing problems regarding the Customs Union, which has thus far failed to attract FDI.

Uzbekistan, which put forward the goal of industrialization and import-substitution in the early years of independence, has also experienced mixed results. The country is still dependent on cotton, gold, and gas and it has to subsidize its newly created manufacturing projects (such as automotive and chemical production). Foreign investors are reluctant to come to this closed country while investors from neighboring countries, which display an interest in the large Uzbek market, are denied entry for political reasons. Kyrgyzstan and Tajikistan, which employ their main advantage as suppliers of cheap, young labor, are also realizing the deficiencies of their semi-rentier policy. No solution will emerge for the future of Central Asia without a totally reshaped vision of the need for economic transformation.

Three Economic Incentives to Cooperate

Search for New Economic Ideas

CIS countries look regularly at the success stories of China, the Republic of Korea, and Taiwan, which, with their complex trade regimes, managed to provide extensive import protection while at the same time provide a very substantial stimulus to export industries. The 2008 world financial crisis also contributed to feeding new ideas about the global division of labor, and the process of regionalization as a cushion from future financial turmoil. It was the East Asian financial crisis of 1997–98 which had the biggest impact on the mindsets of Asian policymakers, giving substantial impetus to regional integration of the Asian economies. Another reason being their “growing frustration with the unilateral approaches by the US and ‘market fundamentalism’ symbolized by the Washington Consensus.”¹⁵ In the current post-crisis period, Central Asian countries may share a similar sentiment in their search for regionalized economic alternatives.

To be both successful and gain the support of the population, regional cooperation has to focus on real long-term challenges for the well-being of ordinary Central Asians, that is, first and foremost on economic issues. For a long time, Western literature on political economy insisted that regional integration was most effective when propelled in by wealthy, knowledge-rich countries, which were more likely to provide better access to technology than poorer trading partners. This was the underlying legitimacy of any North-South regional integration agreements.¹⁶ However, dependency theorists argued that because of the inherent inequality in the international economic system, developing countries find themselves trapped in a position of permanent underdevelopment as suppliers of inexpensive raw materials to the developed core.¹⁷ South-South regional initiatives thus emerged as a part of protectionist development strategies, with regionalism part of development discourse.¹⁸ The market size, enlarged as a result of reducing internal barriers to trade, confers an advantage in terms of economies of scale in the production of goods and provision of services and increased potential for investment, both from foreign and local sources.

Today, “developmental regionalism” is one way to consider the future of Central Asian regional cooperation. This model could secure the region from the dominance of foreign/global firms that is associated with globalization, and attempt to support domestic capital through regionalism.

As a UN report on regional cooperation in Africa¹⁹ suggests, in “developmental regionalism” cooperation among countries should be led in a broader range of areas than just trade and trade facilitation, to include investment, research and development, as well as policies aimed at accelerating regional industrial development and regional infrastructure provision. The region of Central Asia could thus expand its productive capacity, focusing on industrial projects that are job-intensive to accommodate its work force, and utilize its extensive natural resources to meet both local and external demand. To realize industrial potential, the mechanism of economic cooperation would use increased economies of scale and falling costs, as well as encourage private sector investment and FDI, both from within and outside regional integration arrangements as a result of market enlargement.

15 Dilip K. Das, *The Asian Economy: Spearheading the Recovery from the Global Financial Crisis* (London, New York: Routledge, 2011), 135.

16 Maurice Schiff, and Alan Winters, *Regional Integration and Development* (Washington, D.C.: World Bank, 2003).

17 Mathew Doidge, “From Developmental Regionalism to Developmental Interregionalism. The European Union Approach,” *NCRE Working Paper* No. 07/01, July 2007, 4.

18 South-South cooperation has recently been discussed by the Uzbek economist Ildus Kamilov, from the Center for Economic Research in Tashkent. See Ildus Kamilov, “Sotrudnichestvo v formate Yug-Yug,” *Mezon.uz*, September 23, 2013, <http://www.mezion.uz/analytics/trends/11566-sotrudnichestvo-v-formate-yug-yug-prishlo-vremya-dlya-uzbekistana-stat-donorom>.

19 “Shift from traditional approach to integration to ‘developmental regionalism,’ report urges,” *UNCTAD Press Release*, July 11, 2013, <http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=146>.

Diverging Economic Patterns

Conventional thinking argues that there are few incentives to cooperate in Central Asia due to lack of economic complementarities. This was true at the collapse of the Soviet Union when the countries of the region essentially exploited their resource endowments, which were more competing than complementary.²⁰ However, this has drastically changed, and economic patterns are today largely more diversified, which creates new, unexpected vectors for cooperation.

The complementarity and possible cohesion of Uzbek and Kazakh markets forms the core of any integration initiatives, because of the size of their economies and because of their different development strategies. Besides evident possible complementarities in the water/energy nexus as well as agricultural sector, multiple other domains of interaction could be added. For instance, Kazakhstan's share of manufacturing in GDP dropped from 18 percent in 2000 to 12 percent in 2011, while, on the contrary, Uzbekistan managed to increase the share of its manufacturing sector from 13 percent to 22 percent of GDP.²¹ In 2012, Uzbekistan produced more than 230,000 cars—more than ten times that of Kazakhstan which produced only 21,000.²² It follows that the dynamic Kazakh market could become a key client of Uzbek production.

In the joint Uzbek-Kazakh meeting of June 2013 regarding bilateral economic cooperation, mention is made of exports to Kazakhstan of Uzbek cars and cargo transport, buses, agricultural equipment, finished textiles, electronic equipment, construction materials, glass, high-density polyethylene; and exports to Uzbekistan of Kazakhstani metal, ferroalloys, wood, and wood products. Today Kazakhstan is the third largest trading partner of Uzbekistan; and Uzbekistan the third largest CIS trading partner for Kazakhstan—albeit figuring in the second half of the table in its top 15 world trading partners. Given Tashkent's isolationist policies, these statistics actually serve to show that there is still a large room for improvement in the two countries' complementarities.

Kazakh businesses often have a surplus of capital, and thus could become the bankers for the whole region. In 2007, before the global financial crisis hit the region, Kazakh bankers were controlling up to 50 percent of the Kyrgyz banking market²³ and developing strategies to invest capital in Tajikistan, and potentially in Uzbekistan if the local legal system had been opened to them. These Kazakh private investments were not large per se but they were sizeable compared to the smaller economies of their

neighbors. According to official data from the Kazakh National Bank (which likely underestimates the true amount), the total FDI from Kazakhstan to Kyrgyzstan was around \$537 million in the period 2005 to 2012. FDI was also targeted at Uzbekistan (\$252 million) and Tajikistan (\$88 million) in the same period.²⁴ In Tajikistan, Russian investors are more important, but Kazakh mining companies are showing increasing interest: KazZinc is currently bidding for the gold deposit Bolshoi Konimansur, and outbid the Australian mining giant BHP Billiton.

Uzbekistan and (especially) Turkmenistan are much less active in the development of intraregional investment ties, partly because of capital control, but the underlying reason is political, not economic. Should there be a shift in the strategies of the Uzbek and Turkmen regimes, Kazakh investments could also make their impact felt in these two countries. Currently, although Kazakh access to global capital has reduced after the crisis, the country still has considerable domestic resources (national reserves, assets of commercial banks, and pension funds) which are looking for more diversified areas of investment, and therefore would support any regional integration project with Central Asian neighbors.

Kazakh firms are also increasingly interested in locating their production processes in countries with cheaper labor, such as Tajikistan and Kyrgyzstan, or in using the industrial capacities of Uzbekistan while targeting a larger market comprising of Russia, China, and South Asia. For Uzbekistan, which directs most of its manufacturing exports to the CIS markets (food, cars, chemicals), the encirclement resulting from the Customs Union's possible enlargement to Kyrgyzstan and Tajikistan is a worrying sign. Fear of marginalization could drive Tashkent, a lynchpin in Central Asia cooperation, to consider the benefits of improving regional cooperation. Like Belarus with its manufacturing advantages in the Customs Union framework, Uzbek manufacturing would only stand to gain in Central Asia regional value chains as it has developing capacities in oil and gas processing facilities, chemical industry, textiles, and food processing. Kyrgyzstan too has an emerging textile and agro-processing industry and could develop this niche to export to the Kazakh and Uzbek markets.

Central Asia migration is another factor to consider in informal exchange flows. Both Kyrgyzstan and Tajikistan will favor any labor-intensive project that could address their issue of chronic unemployment and

20 Pomfret, "Regional Integration in Central Asia," 48.

21 United Nations Statistics National Accounts Main Aggregate Database, <http://unstats.un.org/unsd/snaama/dnllist.asp>.

22 Alima Bolatbek "Proizvodstvo avtomobilei v Kazakhstane uvelichilos' v 20 raz," *Bnews.kz*, April 29, 2013, <http://www.bnews.kz/ru/news/post/136525/>.

23 Nikolai Kuzmin, "Nursultan Nazarbaev predlozhit Kirgizii ekonomicheskuyu pomoshch' i investitsii kazakhskikh kompaniy," *Expert Kazakhstan*, May 7, 2007, <http://expertonline.kz/a6479/>.

24 National Bank of Kazakhstan Direct Investment Database, <http://www.nationalbank.kz/>.

the out-migration of labor. Although Russia remains a major destination for labor migration from Central Asia, Kazakhstan is increasingly competing with Russia as a destination for migrant labor.²⁵ Factors of familiarity and common cultural ties, for instance, make Kazakhstan a more attractive place to work compared with the protective and nationalist-minded migration policies of Russia. Although Kazakhstan's construction sector, which used to employ most of the migrants, has slowed down, many migrants are finding opportunities in the cities of western Kazakhstan, where oil operations are located, as well as in southern agricultural regions.

In the near future Kazakhstan and its neighbors will need more regional cooperation projects that are job-intensive to cope with the migration phenomenon. Complementarity between workforce-seeking countries and workforce-sending ones could thus constitute one of the drivers of regional integration.

Many other positive signs of diversification of the regional market that create greater opportunities for cooperation exist, but a more detailed assessment should be made as regards economic, political, and social gains, as well as losses from potential economic cooperation. The experience of the Russia-led Customs Union shows that in the absence of preliminary, trustworthy, detailed, and publicly available analysis of integration models, including assessments of the likely impact for all stakeholders, such an integration model is misunderstood and even viewed with suspicion. Central Asia cooperation should be studied in multiple dimensions and preferably on a single institutional basis.

Most of these prospects for increased regional cooperation will largely depend on the next generation of Central Asian leaders, who will be better equipped in terms of economic and global knowledge thanks to having received greater training in these domains and gained more experience abroad. The next generation will also be more concerned with structural economic reforms and renewing infrastructure and technologies than the previous one, who, rather, have mostly directed their energies at state-building.

Even if the region's new leaders may wish to preserve the status quo, they will have to recognize that the national economies are already "exhausted" by the current rent-seeking strategies. Social unrest, which is growing even in comparatively rich Kazakhstan, will force the leaderships to address the issue if they want to maintain popular legitimacy and not lose the support of a large part of the population. Obviously, better economic cooperation in Central Asia in the near and mid-term perspective

remains largely dependent on a leadership change in Uzbekistan. The new Uzbek elites will have to address the sustainability of the autarkical choices made by Islam Karimov, and could decide that their own interests lie in an *at least* partial liberalization that would foster regional projects.

Today's elites might be willing to start considering regional cooperation more seriously. For them, regional integration could be seen as a tool by which to oppose external forces. In addition they may see in regional integration the driver of a more powerful domestic agenda, one that addresses the demands of the emerging entrepreneurial class.

Grassroots Economic Activities

The economist Alexander Libman has put forward two models of bottom-up integration for Central Asia: an investment model which relies on direct investments from large transnational companies; and an informal model which is related to emerging informal cross-border linkages.²⁶ Despite limitations in trade and other barriers erected by the governments of the region, for the last twenty years both formal and informal regional business linkages have grown in Central Asia. Fostering of business linkages among the countries is thus a key element favoring regional integration, and grassroots dynamics are visible. Most local analysts list the business community as a major actor in regional economic cooperation and national bureaucracies as major hurdles.²⁷ It is worth remembering in this context that the leading voice for a new postwar order in Europe was neither an intellectual nor a politician, but rather a French wine merchant from Cognac, Jean Monnet.

Business development in Central Asia occurs in a challenging environment of stiff regulations and difficult access to credit. Local businesses need more knowledge-related products and services to expand their entrepreneurial knowledge and strategies. At the same time, Central Asian markets are more familiar to local businessmen, who understand how they work and how to deal with the authorities and other institutions. The constant flow of inter-regional interactions and real cross-border activities, involving shuttle trade, migrants, students, tourists, and small-scale businessmen, is largely unrecorded in official statistics, but many micro-studies and anthropological studies confirm their significance in providing revenues to hundreds of thousands of Central Asian households. The huge market at Kara Suu in south Kyrgyzstan, centered in the vibrant Ferghana Valley, the Bishkek-based Dordoy market which supplies

25 Aleksandr Libman, "Integratsiya snizu v Tsentral'noy Azii," *Evrasiyskaya ekonomicheskaya integratsiya* 1 (2009): 14.

26 *Ibid.*, 6.

27 Olimova et al., "Regional Cooperation in Central Asia: A View from Tajikistan," *Problems of Economic Transition* 48, no. 9 (2006): 6–86.

mostly Kazakhstan, and the Almaty markets dominated by Chinese entrepreneurs are the backbones of the non-industry related economic sectors.

At all levels of the economic chain, business operations are conducted region-wide, via informal links that make use of relatives, friends, or dummy companies to allow cross-border movement of capital. Such activities may focus on agriculture, construction, the real estate market, or mining; mergers and acquisitions also take place but they are less likely to be recorded so as to circumvent strict regulations.

The following are but a few examples of recorded business activities and ventures that display a regional dimension. One such venture is that of the notorious Uzbek Patokh Shodiev, one of the majority shareholders in the Eurasian Natural Resource Corporation (ENRC), who has substantial personal interests in the non-mining sectors in Kazakhstan. Another example is ShymkentPivo, one of the largest producers of beverages in Kazakhstan, which owns a joint venture in Uzbekistan, Marvel Juice. Visor Capital, an asset management firm based in Kazakhstan, is one of the most active mediators in business transactions in Kazakhstan, Kyrgyzstan, and Uzbekistan. Even Turkmen products (although the regime distances itself from integration initiatives) needs Central Asia markets: there is, for instance, a successful chain of outlets, Tuana Home Textile, which sells Turkmen textiles in Almaty and, recently, a Turkmen textile exhibition was held in Dushanbe.²⁸ It is important to note that most “interactions” derive purely from business initiatives without the aid of cooperative policies on the behalf of governments.

Obviously, there is a fear of competition in some business circles as trade liberalization might erode the market power of dominant firms through entry of competing firms from other member countries. Distributing the benefits accruing as a result of the availability of larger markets evenly among all members is also seen as a challenge. Insufficient experience of international cooperation leads to situations in which many stakeholders cannot accurately estimate the benefits from cooperation and therefore tend to underestimate them. As experts from CASE-Kyrgyzstan put it in their analysis of the regional cooperation problems: “As cooperation brings increased efficiency, transparency,

and long-term gains, the winners are those who are competitive and have a long-term vision. Losers are rent-seekers of all kinds—corrupt government officials, businessmen preserving monopolies or economizing on environmental protection, and unskilled workers fearing competition from migrants.”²⁹

Central Asian entrepreneurs need a sustainable business-to-business platform to meet and exchange ideas and understand each other better. There is a wide information gap between them as regards local business regulations and market and logistics opportunities. A regional business cooperation initiative would facilitate joint regional projects within Central Asia, with the potential to attract foreign investors as well.

When Identity Becomes a Lever for Integration

Economic cooperation is easier to implement if based on common cultural grounds. As Jean Monnet once said, if he were to begin again, he would start with culture.³⁰ If we can agree with Martha Brill Olcott’s statement that “[t]he imprint which the Mongol conquest set on Central Asia society was more powerful than that of the Russians and Soviets,”³¹ does that mean that this century-old historical reference can make sense in today’s world? Each of the Central Asian countries is still searching for a national ideology, while recognizing a shared civilizational legacy, and partly a shared regional geographical definition. Even if not implemented immediately, these elements should be part of a candid debate on how cultural levers can help to foster regional cooperation.

Personal animosities between presidents and the collusion of political and economic interests among incumbent elites are obviously key barriers to regional cooperation.³² In autocratic regimes it is difficult to distinguish regional rivalries from personal rivalries and political strategies from country strategies; in any case, the majority of the population is not able to voice their opinion regarding regional issues. Nonetheless, many prominent analysts, such as Olcott, think that competition will continue to dominate the scene due to geographical and historical factors even after generational change. She states that these regional problems are not a feature of the first stage of nation-building, but a sign of more structural differentiation.³³ Because of Central Asia’s dissociated

28 “Turkmenistan prodemonstriruet svoy tekstil’ dushanbintsam,” *Asia Plus*, March 25, 2013, <http://www.asia-plus.tj/ru/news/turkmenistan-prodemonstriruet-svoi-tekstil-dushanbintsam>.

29 CASE-Kyrgyzstan, “Regional Cooperation in Central Asia: A View from Kyrgyzstan,” *Problems of Economic Transition* 48, no. 8 (2005): 5–61.

30 Virgil George Baleanu, “A Conflict of Contemporary Europe: Is it the Case that before there can be Europeans, there must be Europe?,” *Conflicts Studies Research Centre*, 1994.

31 Martha Brill Olcott, “Common Legacies and Conflicts,” in Roy Allison and Lena Jonson, eds., *Central Asian Security* (London: Royal Institute of International Affairs, 2001), 28.

32 Marlene Laruelle and Sebastien Peyrouse, “Regional Organisations in Central Asia: Patterns of Interaction, Dilemmas of Efficiency,” *University of Central Asia’s Institute of Public Policy and Administration Working Paper No. 10*, 2012, 45.

33 Olcott, “Common Legacies and Conflicts,” 28.

national ideologies, the next generation is thus believed to be less inclined to cooperate regionally and to have a weaker sense of regional identity.

However, this statement has yet to be confirmed, and, on the contrary, it is possible to observe many elements that would point to a growing feeling of regional identity. For one, the next generation of leaders will come to power shaped by different memories than the Soviet legacy that lingers on in the mindsets of the old guard. For this new generation, therefore, Russia is not equated so much with a civilizational role—which the Soviets played in modernizing and bringing education to the region—but mainly with a self-centered and aggressive policy pursued by Moscow after the dissolution of the Soviet Union.

Fears of Russian domination are strong among the new generation, and post-Soviet nationalist ideologies over the last two decades have been largely more anti-Russian than opposed to any of the other Central Asian nations. Russia's current push for a common political agenda may lead to a more nationalist-oriented response from the new Central Asian leaders, and parts of the population. For example, staunch nationalists in Kazakhstan speak against integration with Russia but will favor greater union with Central Asia neighbors.³⁴ Blank spots in national historical narratives such as the anti-Soviet Basmachi movement, pan-Turkism, or Jadidism (all having a potentially powerful regional dimension) will probably be more openly discussed in the years to come, once the last Soviet generation vacates the political scene.

There is indeed a growing demand for new values among Central Asia's youthful population. This youth is a vibrant community exhibiting talent and creativity but built on a shaky foundation of disparities in education levels and diverging cultures. This "young energy" often manifests itself in Islamic piety, radical nationalism, or drives young people to emigrate. On the other hand, events organized mainly by donors such as youth camps and art projects showcase an immense combined potential of Central Asian youth to cooperate and find common ground. If there was a concerted effort to promote regional identity, it would find success precisely among this younger generation of Central Asians.

Moreover, the revival of Islamic identity among the younger generation, whether it is understood as religious and/or as an ideological backlash to the current social and political order, fosters the feeling of shared cultural values with neighbors. Central Asian migrants working in Russia, for instance, tend to develop a stronger sense of their Muslim identity, and attend largely interethnic

mosques. Still understudied, these cultural changes both in Central Asia itself and among the diaspora will play a key role in the decade to come in giving the voice to a new generation—for whom Central Asian cooperation, if not unity, is a legitimate process to be publicly discussed.

Conclusion

This paper argued that the countries of the Central Asian region need to cooperate to ensure their sustainable development and that broad economic gains will be won from increased trade and mutual investments. It demonstrated that there is a growing understanding, even if still only vaguely formulated, that the countries of the region should make further efforts to make the Central Asian market a cohesive and viable economic unit. Interest in diversifying the manufacturing industries and making a more attractive business and investment climate fosters a revival of interest in regional cooperation.

It would be naive to hope for a rapid improvement in the current state of affairs: it will take time for the countries to assess the costs and benefits of regional economic cooperation. However, the desire of a growing part of the population to take advantage of what they see as the benefits of developmental integration will be a key driver of regional integration: grassroots dynamics are already underway and will, eventually, impact the policy-making process. In this sense, regionalism in Central Asia is likely to be driven from the ground up rather than the other way round. Only private sector initiatives and the understanding of competitive factors or synergy of resources, technology, and factors of production may allow the region to achieve the desired level of modernization that the countries ultimately seek, and to fight poverty and other social issues like unemployment, outward migration, and potential radicalism.

Recommendations

International Aid Focused on the Small- and Medium-Sized Private Sector and on Job Creation

Promotion and support of regional cooperation is a difficult task and should be framed in a road map with equal participation of the donors, governments and private sector. Although donors have long been trying to foster regional cooperation, they should not be discouraged from the current failure of the governments to find a common agenda. Their efforts should be focused on providing technical assistance in trade liberalization, business environment confidence measures, transfer of knowledge

³⁴ See, for example, one of the most recent suggestions of Valikhan Tuleshev, who could be regarded as a representative of the nationalist intellectuals, at <http://www.altyn-orda.kz/news/kazaxstanskije-novosti/professor-valixan-tuleshev-filosofiya-geopolitiki-kazaxstana-v-xxi-veke-tyurkskij-proekt/>.

products in the financial sector, and entrepreneurship. They should also help in larger strategies of job creation and industrial development.

Launching a Regional Think Tank

A consistent and rigorous research program on regional cooperation should be launched within a newly established regional think tank. The research should deepen the understanding of costs and benefits of various integration models and emphasize concrete steps in creating a climate conducive to cross-border trade and investments as well as intra-regional FDI. The improvement of living standards of the overall population as a result of increased cooperation should be calculated. The results should be disseminated widely from government committees to media.

Creating a Regional Business Chamber

Business linkages should be encouraged by organizing more regional business forums, trade fairs, and establishing institutions such as a regional business chamber. The market should decide for itself what to produce and where to locate production, with the governments facilitating this in terms of having a better understanding of—and limiting their role to assisting—the infrastructure and policy needs of businesses.

Promoting Regional Cultural Initiatives

More cultural and exchange initiatives, particularly among the youth, are needed to strengthen regional identity and promote knowledge exchange. Promotion of regional media with a specific agenda will help to communicate new initiatives to a larger audience.

Connecting Entrepreneurs in Central Asia

Aitolkyn Kourmanova¹ (2015)

The fostering of business linkages across Central Asia is a key element for regional integration. It is in fact a two-way process: private-sector actors are considered the beneficiaries of all regional integration efforts, yet they can also be the implementers and drivers behind the process.²

While Central Asia finds itself in the center of at least three regional integration visions from Russia, China and the US, the private sectors in these countries need to embrace significant opportunities to cooperate, enhanced by policies of their respective governments. So far governments more than private actors have been the ones pushing for increased connectivity in Eurasia and investing significantly in industrialization, transport links and a business-friendly environment.

This paper argues that the private sector in Central Asia needs to increase its role in regional cooperation in order to capture the opportunities offered by the regionalization processes in Eurasia. It examines the region's two largest economies – Kazakhstan and Uzbekistan – and offers possible solutions for greater connectivity.

A New Context

For the last several years, the connectivity agenda (greater trade and regional economic links) has become a priority for Central Asia's development.³ There are several reasons for this priority, both from outside and from within Central Asia.

From the Outside

The outside factor that is pushing the countries towards closer cooperation is the increasing presence of regionalization processes in Eurasia, which are driven by geo-economic interests. The first gravitation force comes from the north, as the Russian-led Eurasian Economic

Union (EEU) aims to strengthen Russia's links with the Central Asian region. Although the EEU is built on a protectionist pattern and seeks to revive the old Soviet production links, it does provide a stimulus for Central Asian countries to continue to orient their manufacturing exports towards the large Russian consumer market. Yet, with Russian economic instability and economic nationalism on the rise, these links offer only limited opportunities for Central Asian exporters, particularly because, in this inward-looking integration model, there are low incentives for the Central Asian countries to innovate to reach the Russian market. In addition, the revival and strengthening of old links favor mostly state enterprises and large businesses associated with the state.

The US's New Silk Road vision for Eurasia provides political support for trade facilitation and transit integration between Central and South Asia, but also seeks to encourage market liberalization and political pluralism.⁴ This vision can potentially support connectivity among businesses in Central Asia through technical assistance to entrepreneurs, continued support to trade facilitation measures, help to solve "soft infrastructure" challenges, as well as offer policy advice in other areas. Other countries, including India, Iran, the European Union, and Japan also have a major interest in making transit through Central Asia work more effectively, and have their own assistance programs focusing on this challenge.⁵

The Chinese vision of a Silk Road Economic Belt (SREB) is the most powerful connectivity project and is supported by financing from China's \$40 billion Silk Road Fund, as well as new Chinese-led multilateral development institutions such as the Asian Infrastructure Investment Bank (AIIB) and the Shanghai-based BRICS New Development Bank. The Chinese initiative "One Belt, One Road" (OBOR) embraces the broader region of East and Southeast Asia as well as Europe, the Middle East, and Africa. It also specifically aims to "establish and strengthen partnerships" along the route, and establish new "connectivity networks."⁶

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2 Talitha Bertelsmann-Scott, "The Private Sector as a Driver of Regional Integration," European Centre for Development Policy Management, August 2013, http://www.saiia.org.za/doc_download/445-political-economy-of-regional-integration-in-southern-africa-series-the-private-sector-as-a-river-of-regional-integration.

3 Richard Pomfret, "Central Asia Trade and Human Development Paper," United Nations Development Program, 2014, <http://www.eurasia.undp.org/content/rbec/en/home/library/poverty/central-asia-trade-and-human-development.html>.

4 Jeffrey Mankoff and Richard Ghiasy, "Central Asia's Future: Three Powers, Three Visions," *The Diplomat*, May 25, 2015, <http://thediplomat.com/2015/05/central-asias-future-three-powers-three-visions/>.

5 Andrew Kuchins and Jeffrey Mankoff, "Central Asia in a Reconnecting Eurasia, US Policy Interests and Recommendations," *A Report of the CSIS Russia and Eurasia Program*. Center for Strategic and International Studies, Washington, DC, May 2015, http://csis.org/files/publication/150507_Kuchins_CentralAsiaSummaryReport_Web.pdf.

6 Jeffrey Mankoff and Richard Ghiasy, "Central Asia's Future: Three Powers, Three Visions," *The Diplomat*, May 25, 2015, <http://thediplomat.com/2015/05/central-asias-future-three-powers-three-visions/>.

Both political and financial support of the SREB vision comes from the Chinese government, and there are justified concerns that there is little interest from the private sector to support this plan. For most Chinese exporters, a sea route is seen as more efficient than overland transit, and there are many risks associated with transit through Central Asia. Therefore, a real challenge for Central Asian countries is to offer more attractive terms to Chinese and European companies and to significantly adjust their economic and private development policies. They should not only rely on their geographical location and natural resources, but also need to seek a greater role in the new “flattened” regional market, linking their producers to broader markets of China, South Asia, and Europe through global value chains and supporting the creation of principally new industries which could flourish from the new connections.

It is not only important to build the roads, but also to think of what commerce, products, and services will travel along them. As former Asian Development Bank President Haruhiko Kuroda said, it is vital for the region’s policymakers “to critically reassess inward-looking policies that impede mutually advantageous trade with one another and with the region’s larger neighbors.”⁷ The revival of a Silk Road alone would not be beneficial unless it is accompanied by the development of truly regional production and distribution networks that can grow Central Asian exports worldwide.

From Within

There have been important changes in economic policies which also reveal a need for greater regional cooperation. Broader economic development is more prioritized and post-independence strategies, which have been based on utilizing old Soviet potential, are now being increasingly reassessed.

For Kazakhstan, which remains highly dependent on oil revenues, it is now a high priority to develop the non-oil sector, which it had been supporting as early as 2005. For Uzbekistan, the time has come to reassess its inward looking economic policy to boost its stagnating exports. Dependence on oil for Kazakhstan and protection of local markets for Uzbekistan is no longer sustainable, particularly in light of new trends in the external environment. The Central Asian region has witnessed the remarkable economic resurgence of three of their neighbors and BRICs countries – China, Russia, and India – as well as of dynamic Asian nations, such as South Korea, Taiwan and Singapore. The lessons learned from this experience brought up such issues as the importance

of trade, FDI, global value chains, innovations, etc., for which the development of a competitive private sector has an important role.

Domestic challenges both in Kazakhstan and Uzbekistan are also a serious stimulus for reforms to release the potential of the private sector. For Kazakhstan, it is economic diversification which is at the top of the agenda, given the uncertainty of the future oil market, and for Uzbekistan it is a demographic factor – large numbers of young people entering the workforce each year – which necessitates the large scale creation of jobs. Both countries have been developing programs to support their exports, industrial diversification, and private sector development. These programs follow more or less the same pattern, taking a top-down, vertical approach to developing both competitiveness and the capacities of the private sector, with a more precise and targeted focus such as private sector subsidies, local content regulations, import-substitution policies or restrictions on foreign exchange. However, these aspirations require a substantial interaction on a horizontal level, which would involve such matters as infrastructure, connectivity, and a business-friendly environment, particularly in its regional dimension.

At the center of these reforms are the competitiveness and capacities of the private sector in these countries. Entrepreneurs are a driving mechanism of microeconomic processes which Central Asian countries have not been able to grasp fully, and they are important from demographic, social, and labor perspectives. They can either be a source of potential unrest or a source of very rapid growth. The policies have to recognize the demands from a new generation of entrepreneurs, including female entrepreneurs, who want to explore new areas of the globalized economy, services, regional value chains, technology and IT start ups, etc.

Opportunities and Challenges for Private Sector Connectivity

Opportunities

Improving private sector connectivity in Central Asia brings many benefits which should be taken into consideration by policy-makers. Citing Boston University Professor Gerring, “connectivity facilitates the diffusion and fosters standardization of technology, ideas, and norms, it reduces transaction costs, lowering the price and increasing the variety and availability of consumer goods and the potential markets for producer goods. It enhances the mobility of labor and capital, thus reducing inequalities – locally, nationally, and internationally

7 Haruhiko Kuroda, “Regional Co-op Key to Central Asian Integration,” *ADB blog*, February 6, 2006, <http://www.adb.org/news/op-ed/regional-co-op-key-central-asian-integration>.

(wherever connectivities exist). It also strengthens the capacity of governments.”⁸

Central Asian countries need to connect in order to compete in the world economy both as individual countries and as a region. They need to connect physically through transportation links, production chains, trade networks, and people-to-people exchanges, as well as virtually through Internet space, regulative frameworks, and a common business climate. As Central Asian countries remain poorly connected, the costs of exclusion from global trade may be high, with risks of missed opportunities from low participation in production chains between north and south, south and south, and particularly, along the route between China and Europe.

For most Central Asian countries, booming trade between China and Europe means significant transit opportunities. Competition is underway as Kazakhstan and Uzbekistan, but also Kyrgyzstan, aspire to become what they call a “hub of Central Asia.” Luckily, the interaction between China and Europe is multidimensional, so most countries are involved in some sort of transit opportunity. Turkmenistan and Uzbekistan rely on Kazakhstan and Kyrgyzstan to reach China for their energy and non-energy exports, respectively. Kyrgyzstan and Kazakhstan rely on their southern neighbors to access Iran—a new powerful factor for regional cooperation—the markets of the Middle East, and Afghanistan. Tajikistan’s trade routes are largely dependent on Uzbekistan, and Kazakhstan offers transit to Russia for all its southern neighbors.

While the expansion of trade and economic relations within the region could prove a stimulus for the diversification of the regional economy as a whole, there is a less clear understanding of what kinds of goods would be transported through these links, apart from industrial imports from China and Central Asian exports of natural resources. There is also confusion over how transportation projects in each of the Central Asian countries could be linked in a seamless regional network, as much of their investment into developing domestic infrastructure does not necessarily take into account regional needs. If these programs are not coordinated at the regional level, the governments of Central Asia risk creating a redundant or otherwise inefficient transport infrastructure.⁹

In addition, in designing their policies, the countries of Central Asia do not properly focus on the other side of transportation development: that is, a need for

setting up innovative logistic industries around it. The modern logistics around transportation require a higher level of management to enable speedy, just-in-time (JIT) deliveries and are supported by the development of a powerful IT sector, which allows for controlling synchronized and ideally organized flows. Accordingly, this demand may potentially create both direct (freighters, managers, shippers, energy providers) and indirect (insurance, finance, packaging, handling, travel agencies, transit operators) employment opportunities with high qualification and sustainable jobs.

The engagement of China in the regional economy can provide Central Asians with a whole new experience in hosting FDI from transnational corporations, managing production processes, and promoting entrepreneurship and high-end manufacturing. China should not be viewed as the only source of investment, but Central Asians should use their proximity to it to link up with the global value chains (GVCs), also known as global production networks. Local governments need to attract investment from global companies that would be interested in locating parts of their value chains in these economies. The GVC strategy has spread value-added trade and employment opportunities to many locations worldwide and provides support to developing countries to “catch up” to high-income countries, as the share of global value-added trade accounted for by developing countries increased from 20% to over 40% from 1990 to 2013.¹⁰

For Central Asia, where costs of labor are generally low and labor is abundant, there is a potential to attract firms from outside of the region (China, Russia, Middle East) to locate their production of added value components relatively close to the targeted market, making use of Central Asia’s transit and production potential. Central Asia has several competitive advantages to offer in hosting some parts of global production chains, including land, water, and energy resources and competitive costs of qualified labor. There is a particular complementarity between the markets of Uzbekistan and Kazakhstan, where the latter has accumulated capital and natural resource management capacities while the former has developed low cost and diversified production capacities. In fact, all across Central Asia, intra-industry cross-country economic complementarities are more relevant than for inter-industry trade.¹¹

8 John Gerring, *Connectivity: A Key Factor in International Development*, Boston University, 2008, <http://sws.bu.edu/jgerring/documents/Connectivity.pdf>.

9 Richard Pomfret, “Central Asia Trade and Human Development Paper,” United Nations Development Program, 2014, <http://www.eurasia.undp.org/content/rbec/en/home/library/poverty/central-asia-trade-and-human-development.html>.

10 Paul Vandenberg and Khan Kikkawa, “Global Value Chains along the New Silk Road,” *Policy Brief*. ADB Institute, May 2015, <http://www.adb.org/sites/default/files/publication/160572/adbi-pb2015-2.pdf>.

11 Deborah Elms and Patrick Low, eds., “Global Value Chains in a Changing World,” WTO, 2013, https://www.wto.org/english/res_e/booksp_e/aid4trade4globalvalue13_e.pdf.

To promote the creation of value chains – where a corporation located in one country can take advantage of cheaper inputs in another country – closer economic cooperation is needed, including bilateral agreements and streamlined regulations permitting mobility of production factors and better use of the comparative productivity of the Central Asian region. Other prerequisites are improvement in transportation and logistics, as well as more efficient distribution to cut costs and increase competitiveness through higher quality and quicker production and distribution. Improvements in transport efficiency would provide a basis for the expansion of value chains, which would follow the geography of the transportation network. Associated with efficiency of production are reduction of telecommunication costs and the development of information technologies, enabling corporations to establish a better level of control over their value chains.¹² There would be no GVCs if well-functioning transport, logistics, finance, insurance, communication and other business services did not move goods and coordinate production along the value chain. Moreover, knowledge-based services often help to differentiate products for specific markets and consumers, adding value in the process.¹³

In Central Asia, there is the potential to set up value chains in agricultural commodity, energy commodity chains – including the transport of fuels (oil, coal, natural gas, etc.) from where they are extracted to where they are transformed and finally consumed – and chemical commodity chains (polyethylene and polypropylene production, fertilizers). These commodity chains have linkages with the energy and agricultural sectors, since they are both customers and suppliers, as well as with the construction and manufacturing industries.

There are already successful examples of regional value chains in Central Asia. The textile industry in Kyrgyzstan is based on imports of textiles and other non-labor inputs – mostly from China, and largely sourced via the Dordoi bazaar. The lion's share of clothing production is in turn exported to the Russian Federation and Kazakhstan. Providing exports worth more than \$100 million and employing over 100,000 people (mostly women), Kyrgyz clothing producers have been able to compete successfully with clothing exporters from western China on quality, and from eastern China on price.¹⁴ There could be greater

complementarity between the Kyrgyz textile workers and Uzbek suppliers of processed cotton, given the efforts of the Uzbek government to increase its cotton-processing as well as silk-weaving industries.

Other examples of GVCs exist in the machinery sector of both Uzbekistan and Kazakhstan. In the automotive sector, the biggest plants are General Motors in Uzbekistan and Toyota production in Kazakhstan. These projects appear to take advantage of the region's central location between Europe and Asia to bring parts from both regions for assembly in Central Asia. The Arcelor Mittal pipe-manufacturing plant and the GE locomotive plant in Kazakhstan are also examples of GVCs, albeit with smaller scale production capacity than their projects in other parts of the world.

The improved connectivity in Central Asia can give rise to a whole set of new sectors. Tourism services could be a candidate for export expansion in Central Asia – particularly in light of the sector's labor-intensive character, the obvious tourism potential of the ancient Silk Road cities, and the visa-free regimes that Kazakhstan and the Kyrgyz Republic have introduced to develop their tourism sectors. There are negotiations underway between the countries on developing a single touristic brand of the Silk Road,¹⁵ which could allow a single visa for tourists and coordinated services.

While the GVC phenomenon has been linked to the concept of international outsourcing (“offshore outsourcing”),¹⁶ Central Asian firms can also set up their own regional value chains by pursuing a relatively new strategy of near-shoring or setting up production closer to home. Near-shoring becomes an attractive strategy worldwide, as it gives the capability to manufacture close to where customers are located and can also increase customer responsiveness and decrease turnaround times, making the supply chain more predictable.¹⁷ The near-shoring strategies look at commonalities and dimensions of proximity: geographic, temporal (time zone), cultural, linguistic, economic, political, or historical linkages. For example, for Kazakh firms, production costs, especially labor costs, remain high and for many of them it could be beneficial to relocate segments (sometimes the entire process) of their manufacturing activities to the south.

The connections between the region's big businesses are also important and sometimes may even champion the

12 Jean-Paul Rodrigue, “Freight Transportation and Value Chains,” <https://people.hofstra.edu/geotrans/eng/ch5en/conc5en/ch5c3en.html>.

13 “Interconnected Economies: Benefitting from Global Value Chains,” Organization for Economic Cooperation and Development (OECD), 2013, <http://www.oecd.org/sti/ind/interconnected-economies-GVCs-synthesis.pdf>.

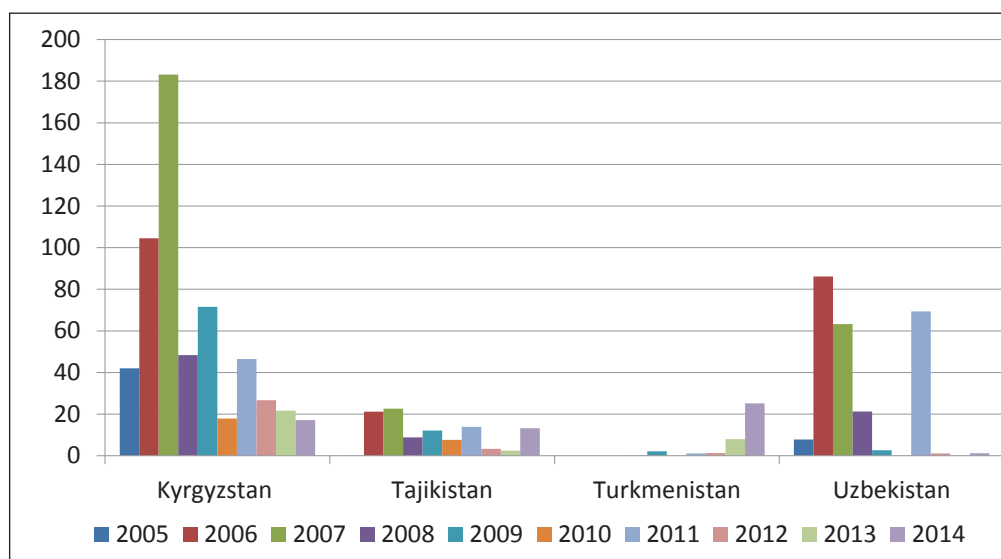
14 Pomfret, “Central Asia Trade.”

15 “Razvitie turizma vdol' Shelkovogo puti,” *Visit Kazakhstan*, <http://visitkazakhstan.kz/ru/about/125/>.

16 Steven Gliberman, “Global Value Chains: Economic And Policy Issues,” Western Washington University and Simon Fraser University, 2011, http://www.international.gc.ca/economist-economiste/assets/pdfs/research/TPR_2011_GVC/03_Gliberman_e_FINAL.pdf.

17 “Will the U.S. See a Major Manufacturing Revival?,” *Wall Street Journal*, July 3, 2014, <http://www.wsj.com/articles/u-s-manufacturing-will-it-see-a-revival-1404388608>.

Figure 1. Gross Direct Investment from Kazakhstan in Central Asia, \$ Million



Source: National Bank of Kazakhstan, *Foreign Investment Statistics Challenges*

process of regional cooperation. Big firms are in fact better able to play a driving role in organizing regional production, seeing the potential for economies of scale and capturing comparative advantages of neighboring countries. Kazakh businesses, that are often capital surplus, are potential investors in Uzbekistan. In 2007, before the world crisis hit the region, Kazakh bankers were controlling up to 50% of the Kyrgyz banking market¹⁸ and developing strategies to invest capital in Tajikistan, and potentially in Uzbekistan, if the local legal system would have been opened to them.

Kazakh private investments to Uzbekistan were not quite big nominally, but they were sizable for the smaller economies of their neighbors. Currently, although Kazakh access to global capital has been sufficiently reduced after the crisis, the country still has considerable domestic resources (national reserves, assets of commercial banks, and pension funds) which are looking for more diversified areas of investment, and therefore will support any regional integration project with Central Asian neighbors. The involvement of Kazakh business in a more liberal Kyrgyz Republic¹⁹ demonstrates the potential of Kazakh regional investment, and there is little doubt that the Kazakh private sector would take advantage if the Uzbek economy started to open up.

Participation in value chains amplifies the costs of tariff barriers. Even low tariff barriers across a region

can inhibit value chains because they are cumulative, as underscored in the OECD report on GVCs.²⁰ For both regional and global FDI, reducing transport and trade costs within a regional cooperation framework is an important gateway to greater multilateral liberalization.²¹

At the same time, Central Asian countries have not been particularly successful in promoting regional trade. Trade in the region is concentrated in non-oil, consumer goods and food products and remains small and largely informal. For all Central Asian countries, main trading partners include Europe, China, and Russia; their exports are concentrated in raw materials and energy. Hence Central Asian countries' external balances rely on exports of goods which are subject to world price fluctuations and have low value to weight, and remain dependent on import supply chains by train and truck over very long distances from Europe and Asia.²²

The structure of foreign trade skewed towards larger exporter companies questions the capabilities of Central Asian businesses to gain from the connectivity opportunities offered by the Eurasian integration processes. The World Bank Enterprise Survey indicates that in both countries, the percentage of exporters is much lower compared to the regional average for Europe and Central Asia (ECA).

18 Nikolai Kuzmin, "Nursultan Nazarbaev predlozhlil Kirgizii ekonomicheskuyu pomoshch' i investitsii kazakhskikh kompaniy," *Expert Kazakhstan*, 17, 2007.

19 "Uchastniki reytinga Forbes Kazakhstan, imeyushchie otnoshenie k KR," *Forbes.kz*, May 16, 2015, http://forbes.kz/leader/uchastniki_reytinga_forbes_kazakhstan_imeyushchie_otnoshenie_k_kirgizii.

20 "Aid for Trade at a Glance 2013. Connecting to Value Chains," OECD, World Trade Organization, 2013, <http://www.oecd.org/dac/aft/>.

21 Ibid.

22 Cordula Rastogi and Jean-François Arvis, "The Eurasian Connection. Supply-Chain Efficiency along the Modern Silk Route through Central Asia," World Bank, 2014, <https://openknowledge.worldbank.org/handle/10986/18779>.

Table 1. Kazakhstan and Uzbekistan
Enterprises' Trade Indicators

	Kazakhstan	Uzbekistan	ECA
Percent of exporter firms	5.2	2.7	23.5
Percent of firms that use the material inputs and/or supplies of foreign origin	64	38.7	66.7
Average time to clear direct exports through customs (days)	7.2	4.6	3.3
Average time to clear imports from customs (days)	11.2	6.4	6.6

Source: World Bank Enterprise Surveys, 2013

The lack of exporting experience among smaller and medium sized companies leads to weaknesses in designing consistent connectivity strategies. One of the most obvious ways for smaller and medium sized companies to participate in exports is through supplying inputs to other larger firms. This way, connections between the region's larger and smaller companies become more stable for exports. The insufficient export orientation of enterprises, and particularly, medium-sized firms, is caused by notorious factors well known to impede regional cooperation, such as cumbersome customs and border clearance procedures, lack of infrastructure, and lack of market knowledge, all of which add up to countries' natural disadvantages to trade with the rest of the world, such as their landlocked status.

On the other hand, landlocked-ness and distance to markets also result in greater orientation towards the regional market, when it is "too far to export" outside of the region. Central Asia is a landlocked region where countries are particularly dependent on their neighbors. Four such types of dependence are discussed in a paper co-authored by Jeffrey Sachs: dependence on neighbors' infrastructure; dependence on sound cross-border political relations; dependence on neighbors' peace and stability; and dependence on neighbors' administrative practices.²³ One way of turning negative dependence into positive connectivity is focusing on a regional market.

This landlocked-ness also underscores the importance of developing the logistics industry in Central Asia in order to handle transaction costs. Developed logistics operators can decrease costs and improve reliability.

A good logistics operator should be able to reduce the probability of wrong occurrences en route. The quality of logistics can have a major bearing on a firm's decisions about which country to locate in, which suppliers to buy from, and which consumer markets to enter.²⁴ On the contrary, high logistics costs and low quality of service are barriers to trade and FDI. In Central Asia, logistics costs are high partly due to poor scale economies and the orientation of the Central Asian countries' exports on raw materials, because mass transportation of bulk items does not require modern logistics, in contrast to time-sensitive, multi-part and high value-added commodities.²⁵ In addition, intrusive border controls, local intermediaries, unreliable transport services by rail and road, and inadequate infrastructure keep supply chains fragmented, in that the principal (shipper or global logistics company) does not have full control over what happens in transit.²⁶

Central Asia remains a disconnected market where economic actors are isolated from each other (in terms of information sharing and economic activity), so much so that actors in one country do not consider the neighboring market complementary to their business activities. This is due to disharmonized legislation between the two countries, insufficient information regarding market opportunities, and a general reluctance based on a condescending attitude toward the neighboring country. In a study done for ADB, local researchers Vakulchuk and Irnazarov found that the problems of disconnected markets and the lack of knowledge of foreign markets are viewed as the main informal obstacles hindering companies from more active expansion abroad.²⁷

At the same time, the entrepreneurs of the region may be connected relatively easily in terms of information and knowledge sharing. There are many relatively inexpensive tools such as the Internet and IT applications which allow setting up regular or irregular, online or offline business-to-business platforms, organizations of various events, publishing information, market reports in various outlets, or single business information outlets.

In both countries, there is a large informal sector, because with rigid state control, entrepreneurs are unwilling to operate legally, so a large part of the economy is underground and escape official statistics. The large concentration of business ties in Central Asia in the informal sector implies that there are serious inefficiencies in the business environment limiting the potential for interaction. The entrepreneurs do not seek to formalize

23 Michael Faye et al., "The Challenges Facing Landlocked Developing Countries," *Journal of Human Development* 5, no. 1 (March 2004): 31-68.

24 "The Logistics Performance Index," World Bank, <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-192413140459/4281804-192413178157/4281806-1206928568540/ANNEXNoteonLPI.pdf>.

25 Rastogi and Arvis, "The Eurasian Connection."

26 Ibid.

27 Roman Vakulchuk and Farrukh Irnazarov, "Analysis of Informal Obstacles to Cross-Border Economic Activity in Kazakhstan and Uzbekistan," *ADB Working Paper Series on Regional Economic Integration*, May 2014.

and expand their activities in the neighboring markets, as they perceive these as too risky in the unsustainable environment with closed roads and border restrictions on a daily basis. Central Asia's policymakers and institutions must also address the corruption and bureaucratic obstacles that bear a large part of responsibility for high transport costs. In fact, these are the consequences of weak institutional basis; for example, customs agencies have greater incentives on collecting duties, not facilitating trade; border agencies seek to increase the time required for checkups due to exaggerated security concerns, while the ministries of transportation build infrastructure but are not worried about improving the quality of services or opening national markets to foreign providers. The governments on whole have been more controlling and protecting rather than orienting towards greater regional connections and facilitating regional trade. The private sector therefore has to raise its voice in helping move up the connectivity agenda.

Obviously, there is fear of competition in some business circles that trade liberalization might erode the market power of dominant firms due to the entry of competing firms from other member countries. Evenly distributing the benefits caused by larger markets among all members is also seen as a challenge. Insufficient experience with international cooperation leads to situations in which many stakeholders cannot accurately estimate the benefits from cooperation, and therefore tend to underestimate them. As one assessment of Central Asia regional cooperation prospects of local analysts states, regional cooperation brings increased efficiency, transparency, and long-term gains; the winners are those who are competitive and have a long-term vision. Losers are rent-seekers of all kinds—corrupt government officials, businessmen preserving monopolies or economizing on environmental protection, and unskilled workers fearing competition from migrants.²⁸

Policy Assessment

What Has Been Done

Under the Vision 2030 strategy and the 2050 Development Strategy, respectively, governments of both Uzbekistan and Kazakhstan intend to accelerate economic growth to lift their gross national income to the income of upper-middle-income countries. Both governments are implementing a set of important reforms directed at the private sector, transport development, and investment

attraction. Below is a comparison of the most important policies in relevant areas which may enforce the links of businesses around the region.

Industrialization

Kazakhstan 2050 calls for specializing in Kazakhstan's areas of comparative advantage, while aiming to make the leap from a resource economy to a knowledge economy. 'Nurly Jol' (Bright Path), Kazakhstan's new economic policy, takes a more specific approach to boost the competitiveness of local enterprises and increase local demand. Hit by lower prices for oil and increased competition within the Eurasian Economic Union, Kazakhstan has undertaken massive support for its local industries and aims to integrate the country into global value chains by exploring the potential of regional cooperation with China and Gulf and Middle Eastern countries. Yet, oil and gas share in the country's industrial production is still very high—at some 50%²⁹—which brings into question the further direction of industrialization policy in Kazakhstan.

For Uzbekistan, industrial production is somewhat more diversified (energy production is about 20% of total industrial output³⁰), as a result of import substitution policy. Around 25% of the country's GDP comes from industry, but its manufacturing exports have a limited market, with passenger cars being a primary finished product exported on CIS markets. Uzbekistan's industrialization policy consists of several programs to develop the services sector and share of locally produced components (Localization Program), and it relies heavily on strict measures of protection for local producers, including import tariffs (the average tariff exceeds 14%, the highest in the region) and non-tariff barriers to trade (e.g., foreign exchange restrictions).

Trade Promotion

Both Kazakhstan and Uzbekistan have recently started to allocate a greater focus on trade facilitation. Yet both are in the lowest ranks of the Doing Business Survey on Trade across the border: Kazakhstan is placed 185; Uzbekistan – 189.

In 2015, Kazakhstan has become a member of the WTO and lowered its goods' tariff rates on average to 6.1%, a level which existed before the country entered the Eurasian Economic Union. The WTO commitments of Kazakhstan may significantly open up its services sectors, including telecommunications, insurance, banking, transport, tourism, and distribution.³¹

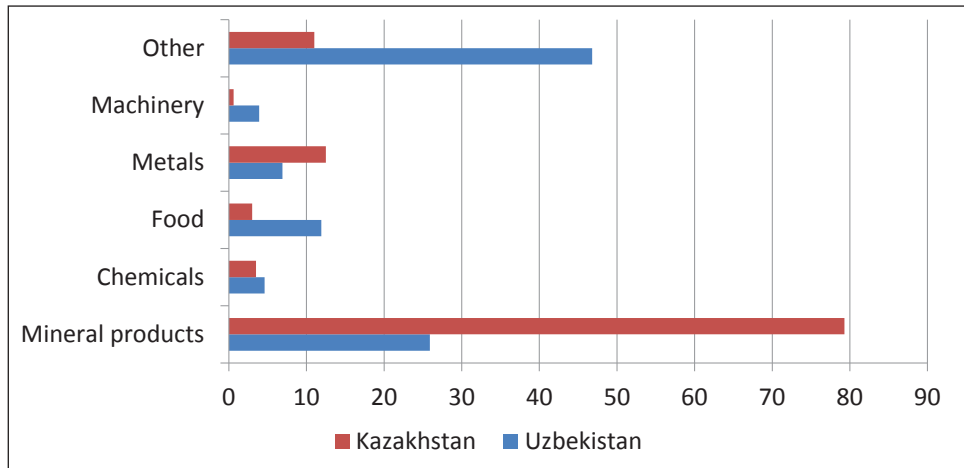
28 CASE-Kyrgyzstan, 2005, Olimova et al., 2006, and Paramonov et al., 2006 in series "Regional Cooperation in Central Asia: A View from Kyrgyzstan, Tajikistan, Uzbekistan," *Problems of Economic Transition*, 2005-2006.

29 Committee for Statistics of Kazakhstan, <http://www.stat.gov.kz/>.

30 State Committee for Statistics of Uzbekistan, <http://stat.uz/ru/>.

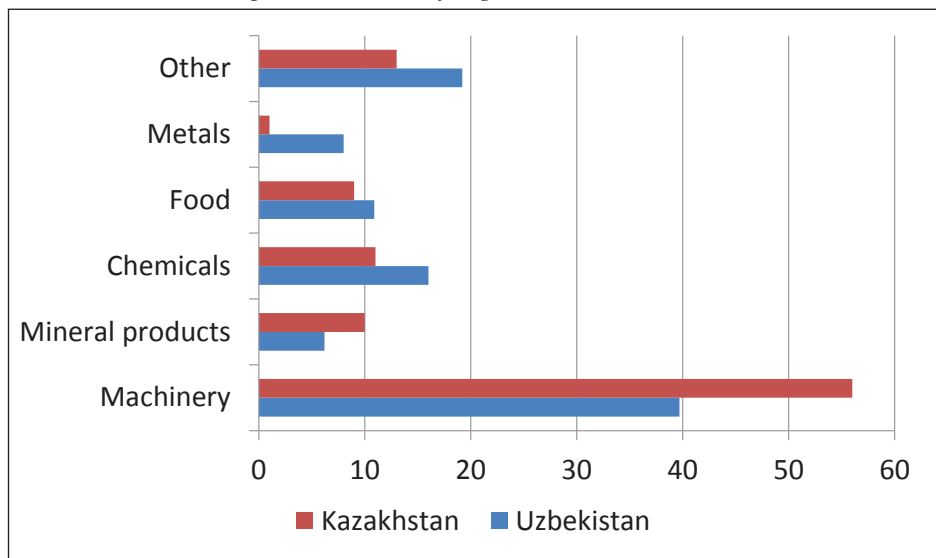
31 Overview of Kazakhstan's commitments, WTO, https://www.wto.org/english/news_e/news15_e/kazakhstan_e.pdf.

Figure 2. Structure of Exports, in Percent (2014)



Source: Kazakhstan and Uzbekistan national statistics

Figure 3. Structure of Imports, in Percent (2014)



Source: Kazakhstan and Uzbekistan national statistics

Uzbekistan also requested to resume its accession process with the WTO, but its trade regime is severe, with high import tariff and non-tariff barriers to trade. Uzbekistan's imports are concentrated in high technology areas, for which there are no import duties, and in the natural resources that Uzbekistan lacks. This reflects the government's policy directed at the industrial development of the economy and the government's higher degree of control over foreign exchange resources, which could be spent on imports. Most of Uzbekistan's consumer imports come via informal links. In an effort to improve

Uzbekistan's trade and investment climate, President Karimov launched a policy with a focus on streamlining regulations and simplifying customs procedures. The measures include a considerable reduction and simplification of customs documents, creation of a shared interagency electronic database for foreign trade, and the abolition of import contracts registration at customs.

According to IMF trade statistics, in 2013 the trade turnover between the two countries amounted to US\$2.3 billion and tripled from 2006.³² There are estimates that trade can easily double in the coming years,³³ should both

³² Two countries report different figures: Kazakhstan reported \$2 billion in total trade in 2013, while Uzbek statistics reported \$3.2 billion.

³³ "Uzbekistan i Kazakhstan planiruyut dovesti torgovyy oborot do \$5 mlrd," *Rianovosti*, November 25, 2014, <http://ria.ru/economy/20141125/1034974645.html>; Kazakh specialists estimate that they can increase exports to Uzbekistan by \$1.6 billion with expansion of deliveries with over 90 goods, see: <http://www.palata.kz/ru/news/10361>.

countries pursue a more open trade policy towards the other. Trade with Uzbekistan comprises an almost equal volume of exports and imports. Kazakhstan is the third trading partner of Uzbekistan, and Uzbekistan is the third CIS trading partner for Kazakhstan, but it sits in the lower part of its top 15 world trading partners. In Uzbekistan there is a potential to export to Kazakhstan cars and cargo transport, buses, agricultural equipment, finished textiles, electronic equipment, construction materials, glass, and high-density polyethylene; and to import from Kazakhstan metal, ferroalloys, wood and wood products.

Transport Development

Kazakhstan and Uzbekistan are investing multibillion-dollar resources into developing their domestic infrastructure, adjusting along the economic centers in China, Europe, and Iran. Kazakhstan, which is pivotal for both Euro-Asian transit and transit to the Central Asian countries, has an ambition to double its transit capacity by 2020 and increase it tenfold by 2050.³⁴ Assessed every five years, the National Program of Forced Industrial and Innovative Development (FIID) is a primary tool for infrastructure investment to be aligned with industrialization policies. Kazakhstan develops several regional corridors, most importantly China-West Europe, and to address some of these coordination issues, the government of Kazakhstan set up an Interagency Committee on logistics in 2012.

For a double-landlocked Uzbekistan, transport links are even more important; even more so because it does not border China and needs to ensure that China's infrastructural projects do not exclude it. The December 2010 Presidential Decree "On the acceleration of infrastructure development, transport and communication development in 2015-2019" includes over 150 projects worth about \$10 billion. Uzbekistan participates in Euro-Asian Transport Links and has a rail link to Afghanistan and South Asia, the only in Central Asia. In addition, Tashkent is promoting intermodal logistics centers. The largest project is the international logistics center Navoi, centrally located in the heart of Uzbekistan. The government also plans to establish a free economic zone in the vicinity of the projected transportation-logistics center. The government hopes to catch at least 5% of all air cargo transportation between Europe and Asia.

For both countries, investment in infrastructure is combined with industrialization plans, i.e. new roads and rail links are built close to industrial capacities to boost

export potential. In Kazakhstan, for example, the first five-year plan of industrialization spent 80% of allocated resources on construction of infrastructure.

Entrepreneurship

Both governments provide subsidies for local entrepreneurs – particularly in exports – and provide training and have very active chambers of commerce and sectoral associations, particularly in agriculture. Most recently, Kazakhstan and Uzbekistan announced measures to liberalize the business environment, launch a large-scale privatization of state assets, and ensure a social safety net for all citizens. There is also more political participation given to the private sector. The leading Uzbek Liberal Democratic party positions itself as a party of entrepreneurs and business leaders, while the National Business Chamber in Kazakhstan is gaining more political influence.

Kazakhstan liberalized the business environment a while ago, moving up the Doing Business ranking more considerably than Uzbekistan (77 versus 141 as of 2015),³⁵ but it now is seriously concerned with the competitiveness of its private sector in light of its moderate performance in the EEU. Therefore, the government embarked on massive investment in local entrepreneurship competitiveness. A draft law is being discussed in the parliament which comprises of amendments to 11 codes and 94 existing laws, designed to improve the business climate by easing the registration and liquidation of businesses, introducing an ombudsman for entrepreneurship, and increasing the efficiency of regulation.³⁶ For the first time in Kazakhstan's practice, these amendments were agreed on with the National Business Chamber.

In Uzbekistan, where population just reached 31 million people, the development of entrepreneurship is highly linked with demographic factors and the associated effect on the government welfare policy and tax revenues. According to the Tashkent-based Center for Economic Research, given demographic projections, the delivery of social rights of citizens will require an increase of consolidated tax burden at least up to 48% by 2030 (as opposed to 30% in 2013).³⁷ Most importantly, starting in 2011 President Karimov gave several important instructions to the government: 1) non-interference of state inspection bodies in small domestic businesses; 2) creation of e-government platforms and one-shop policies for registration and licensing; and 3) upgrading Uzbekistan's rating in the World Bank's Doing Business

34 Kazakhstan 2050 strategy, <http://strategy2050.kz/en/>.

35 "World Bank Doing Business Report 2015," <http://www.doingbusiness.org/reports>.

36 "Zakon po uluchsheniyu usloviy dlya vedeniya biznesa v Kazakhstane," *Tengrinews*, March 1, 2015, http://tengrinews.kz/kazakhstan_news/zakon-uluchsheniyu-usloviy-vedeniya-biznesa-kazahstane-mogut-251252/.

37 "Entrepreneurs of Uzbekistan as a Basis of Middle Class Development," Center for Economic Research, 2014, www.cer.uz.

Report. With a specific law on Guarantees of Freedom of Entrepreneurship (amended in 2012), the government creates guarantees and conditions in entrepreneurial activity and lays out their rights and interests.

During the past several years, Uzbekistan has made considerable progress in the World Bank's Doing Business report in such areas as Starting a Business, Registering Property, Getting Credit, Paying Taxes, and Trading Across Borders. Uzbekistan made trading across borders easier by eliminating the need to register import contracts with customs, tightening the time limits for banks to register export or import contracts, and reducing the number of export documents required. Yet both countries have common low ranks in regulation of construction and access to electricity. Compared to Kazakhstan, Uzbekistan is ranked particularly low in registration of property and taxation. At the same time, both countries focus on the introduction of e-government platforms and one-shop policies to ease regulations and licensing.

Privatization is also back on the agenda for both countries but most prominently in Uzbekistan, as President Karimov also instructed the government to reduce state ownership in a number of sectors and implement a new privatization program of state assets for 2015-2016, a project that the government implements along with the World Bank and which focuses on really lucrative assets, for example, telecommunications.

Both in Uzbekistan and Kazakhstan, the governments are allocating significant resources for technical and

financial assistance to local entrepreneurs (including subsidies). In Uzbekistan, the Fund of Reconstruction and Development (FRD) was created in 2006, which accumulates revenues from extracting industries and stimulates investment by extending long-term loans to banks for co-financing strategic government-selected projects. Kazakhstan's National Fund allocates significant resources to local entrepreneurs (amounting to \$2.2 billion for the next three years) to compensate for shrinking access to credit in the local banking system.

Although public spending provides many advantages to local entrepreneurs and in the end enforces their capacities, it brings along risks of corruption, adverse selection of beneficiaries, and the development of assistance-dependent behavior among firms, which are not translated into productivity improvements, discourage competition and increase the power of the bureaucracy. On the other hand, as the result of this support, the private sector both in Kazakhstan and Uzbekistan has become much more mature and confident. Central Asian entrepreneurs had been educated in the former Soviet system and gained their business experience only after the collapse of the central planning system. They had to overcome inefficient business networks, clientelism, and a lack of professional and managerial skills. It is possible that some of the mature business people in both countries could be involved in "business angel" assistance to younger entrepreneurs, providing practical advice and access to investment financing. It is also clear that the early

Table 2. *Small and Medium Enterprises in Kazakhstan and Uzbekistan*

Kazakhstan	Uzbekistan
The government of Kazakhstan defines an SME as any enterprise with fewer than 250 employees. The differentiation between small and medium businesses is based on annual asset values and number of employees. Small businesses are those enterprises with annual assets 4 lower than 1 million tenge and fewer than 50 employees. Medium-sized businesses have an asset value greater than 1 million tenge with fewer than 250 employees.	The government of Uzbekistan has a more nuanced approach to SME by distinguishing small entrepreneurship as follows: individual entrepreneurs, micro-firms (from 5 to 20 employed, depending on the sector), and small firms (from 25 to 100 employed depending on the sector). Individual entrepreneurs choose to get a legal status of sole proprietorship (SP) to simplify taxation and accounting by paying a single tax.
Kazakhstan has over 750,000 registered SMEs that employ over 2.5 million people and produce about 18% of GDP. It is estimated that up to 30% of registered SMEs are not active.	According to Uzbekistan statistics, small businesses contribute more than 55% to GDP and a share of small and micro-firms is around 28%.
SMEs represent over 90 percent of all enterprises in the country. Almost two thirds of SMEs are concentrated in the trade and services sectors, which are characterized by low risk and modest start-up capital. The remaining SMEs are active in agriculture (23%), transport and communications (8%), and manufacturing (3%).	Small businesses in Uzbekistan were reported to provide 76.7% of all jobs in 2014, with the highest concentration in agriculture (where they constitute 98%), construction, services, and trade. In exports, small businesses occupy 24.1%, while in imports – 42.4%.
Self-employed are around 30% of the labor force.	Uzbekistan does not recognize a category of self-employed.

Source: National statistics

stage of infant industry development where the state plays a major role of support will be coming to an end in the next several years and the private sector should embrace genuine market forces.

Business-Friendly Climate

Attracting foreign direct investment is an acute issue for both countries. With a qualified labor force, low production costs, and available infrastructure, there is great potential for foreign investment in the countries' natural resources, manufacturing, services, and consumer market, but this potential remains unrealized.

President Karimov signed several legal amendments on January 20, 2014, which allow foreign investors some preferences in hiring foreign labor and obtaining multiple entry visas for their international employees. The amendments also provide more guarantees from the state for building necessary infrastructure and investment protections. Kazakhstan has adopted a set of measures to attract foreign investment as well. In 2015, it abolished visa requirements for some 30 countries and announced important institutional reforms to fight corruption and improve the legal system. Yet some of the problems in Uzbekistan, such as barriers in currency conversion and repatriation of funds, remain, and there are no clear indications if these will be waived. With old legislation in place, Uzbekistan will have to rely more on bilateral FDI arrangements and domestic investment.

So far, the potential of setting up value chains in the region is limited by a number of border and customs restrictions between the countries. Higher trade costs are a particular burden for small and medium-sized enterprises in such labor-intensive sectors as agriculture, light industry, wholesale and retail trade, and tourism. Taxation, access to finance, and informal practices remain main problems in Uzbekistan and Kazakhstan, according to the World Bank Enterprise Survey. In Kazakhstan, it also reveals inadequately educated workforce and corruption for large and medium firms.

Mutual Cooperation

The above listed policies show that both Kazakhstan and Uzbekistan are slowly building some pieces of a network which may connect them together. The recent exchange of visits by presidents of both republics shows a greater readiness to expand cooperation – they even declared the introduction of a high-speed passenger train between the two countries. In November 2014, President Islam Karimov said in Astana that the two countries should “coordinate their positions” more often. He also praised

the implementation of the Strategic Partnership Treaty signed by both countries in 2013, which complements the Treaty on Eternal Friendship signed in 1998.³⁸

Yet, the progress in bilateral cooperation is slow and there is a lack of trust and openness. Many areas in the Uzbek economy remain de facto closed for Kazakh businesses and vice versa. In 2008, Kazakhstan and Uzbekistan announced discussions to build a new free border trade zone for the two countries; however, this plan has not yet materialized. Uzbekistan's preference for bilateral relations stands in contrast with Kazakhstan's active multilateralism.

To bring the two countries together, a sustainable economic and business-oriented platform is needed which can address the specific issues of economic cooperation and the needs of the countries' private sectors. They should start openly discussing the questions of coordination of their policies: how can their new infrastructure connect Central Asian firms? What kind of chains between customers and suppliers may emerge? How do countries expect to become hubs of trade and transit in Eurasia with existing barriers to trade, bureaucratic bottlenecks, and infrastructure deficiencies?

In fact, current infrastructure development leaves many questions unanswered because the governments themselves face radically new opportunities which will impact economic structures in these countries. For a long time, inherited infrastructure connected Central Asian suppliers to Russia. In Soviet times, there were few transit opportunities and economic structures in Central Asia were rather backward, oriented on basic production. This time, the interaction between China, the Middle East and the West has enormous potential for setting up various value chains which would require the creation of new capabilities in Central Asian countries, aside from trading with their natural resources. The efforts which Kazakhstan and Uzbekistan – and not only them – undertake in building roads, bridges, rail lines, ports, and airports deliver broad economic (and probably underestimated) benefits by connecting firms to international and regional markets (including the labor market). The infrastructure will be there for decades, which provides Central Asians with a broader choice of instruments to utilize in the longer run.

In sum, both countries focus on many common areas and while the policies, tools, and even infrastructure is being put in place, the key substance that should fill in this framework is still lacking – an open approach to each other, recognition of mutually beneficial cooperation, and political will to address the remaining barriers. If both

38 “Uzbekistan ratifitsiroval dogovor o strategicheskoy partnerstve s Kazakhstanom,” *UzDaily*, December 24, 2013, <http://www.uzdaily.uz/articles-id-18560.htm>.

countries come to realize the power of their combined human and financial capital in Central Asia, and if they succeed in finding more common grounds and aligning their positions on a wider range of issues, there will be positive overall regional dynamics seeing regional prosperity through a “shared lens.”

What Needs to Be Done

The governments of all Central Asian countries participate in numerous programs to improve their customs and border policies, many of which are funded by donors, such as ADB (CAREC), USAID, EU, World Bank, etc. Therefore, considerable work is already being done to address the macro policies to promote trade, enable a more business-friendly environment, and develop infrastructure. This paper focuses on smaller scale solutions which are addressed not to the governments, but to the private sectors of the countries, and may require the help of the donors but also multi-national investors interested in the Central Asian market.

Regular Business Forum on a High-Level

Associations between businesses in Central Asia could provide knowledge and experience exchanges not only between the countries but also between producers, traders, and investors. They lay a pretext to the development of joint ventures throughout the region, extending production chains, but they can also strengthen the demand for reform and pressure governments through a public-private debate on regional connectivity agendas.

To that end a regional business forum should be set up and engage big local businesses, as involvement of bigger players allows a higher level of influence on decision makers. Big businesses are also capable of fitting into the discussion of production chains and joint ventures. They can also provide technical advice and investment to younger entrepreneurs. Both big companies and new, small, high tech start-ups can give a better stimulus to the connectivity debate. Some of the possible forms of business associations are NGOs for business advocacy with consultative tasks, focusing on marketing info, specific business trainings, networking (connecting young startups with more mature business leaders), as well as the organization of exhibitions and institutions (such as regional business chamber).

Regional Business Training Programs with a Focus on Logistics Management

The increase in global production sharing, the shortening of product life cycles, and the intensification of global competition all highlight logistics as a strategic source of competitive advantage.³⁹ At the same time, the Central Asian region is one of the most isolated from international logistics knowledge. There is a lack of skills and a limited culture of supply-chain management among private and public sector managers. Limited presence of international logistics companies implies limited exposure to international best practices in the field of supply-chain management.⁴⁰ With no practical experience, there is a need to import knowledge and practices, and the establishment of the regional logistics institute⁴¹ can be a key solution providing knowledge and training in logistics and supply-chain management throughout the region.

Local businesses, on the whole, need more knowledge-related products and services expanding their entrepreneurial knowledge, sales and marketing strategies. Expanded support is therefore needed for vocational training, business and extension services, and other initiatives to boost the productivity and capacities of small-scale farmers, producers, and traders. Training provided online or offline should include local cases and practical experience and be specific on such issues as supply chain innovation, supply contracts, electronics supply chain, inventory management, etc.

Information asymmetry is one of the major hurdles as well, as it is difficult to obtain information on neighboring markets, their regulations and potential partners. The best mediator is Internet and digital media, as well as IT innovations, which in developed countries have created the example of Uber, which is essentially a mediator and market knowledge supplier to market participants. IT platform applications make it easier to acquire, manage, and process information and allow closer integration between adjacent steps in the value chain. A good business online information resource would be helpful in connecting the community of entrepreneurs who view and share ideas and experiences to assist each other in finding good investors, as well as to discuss the inner workings of operating a business. This platform may include a business plan builder, research, rate and review funding sources, and an investor center. With articles, forums, blogs, on-demand seminars, and

39 “The Logistics Performance Index,” World Bank, <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1192413140459/4281804-1192413178157/4281806-1206928568540/ANNEXNoteonLPI.pdf>.

40 Rastogi and Arvis, “The Eurasian Connection.”

41 Example: Dutch Dinalog - Dutch Institute for Advanced Logistics, was founded in 2009 to provide the best means to achieve a leading position in the European market as controller of transnational flows of goods and to maintain a leading position in logistics and supply chain management as well. Dinalog is fully embraced by the business world, trade organizations, main ports, authorities and knowledge institutions, http://www.dinalog.nl/en/about_us/.

podcasts, entrepreneurs will be better prepared for their ventures and have the resources required to make better business decisions.

Facilitate the Development of Regional Clusters

One way businesses in Kazakhstan and Uzbekistan can work together is through setting up intra-industry clusters. Regular associations or occasional conferences on one regional sector (industry, services, transport, etc.) organized with the help of international donors and potential investors, would shed more light on the availability of economies of scale and perspectives of setting up regional value chains. Clusters, whether they group enterprises in industry, trade and transport clusters, may create a regional network of firms along the particular direction (or transport corridor). They may also include government agencies, ranging from customs to fiscal or transport authorities. The corridor- and cluster-based trade and transport facilitation projects, according to World Economic Forum, can create a synergy of interests, a better understanding of the stakes and costs and of the need to build trust and ultimately a sense of “ownership”

on the part of the government and the private stakeholders in the countries concerned.⁴² These initiatives may then gradually pave the way to more concrete discussion on creating a regional transit regime, border control facilitation measures or border trade/border export processing zones (EPZs).

Regional Development Financing Initiative

Regional businesses on the whole suffer from a lack of financing, high interest rates, and collateral requirements. Financial systems are not well integrated globally, with limited diversification of financial products.⁴³ Local banks find regional business projects to be too risky, while large development institutions such as CAREC, AIIB, or Silk Road Fund finance the governments. Although the establishment of a regional or bilateral development bank that could deal with funding regional projects may sound too ambitious, there is a need to expand regional financing programs in the existing development institutions and local banks, or to set up a low interest regional fund targeted on specific regional groups: IT, logistics, young entrepreneurs, etc.

42 Robert Lawrence et al., “The Global Enabling Trade Report,” World Economic Forum, 2008, http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2008.pdf.

43 “OECD Central Asia Competitiveness Outlook,” 2010, <http://www.oecd.org/globalrelations/46974002.pdf>.

Discussing Eurasianism and Eurasian Integration within the Azerbaijani Context

Farhad Aliyev¹ (2012)

The return to power of Vladimir Putin in May 2012 has been analyzed by Western pundits in two ways: either as heralding a new moment in the history of post-Soviet Russia; or as marking a continuation of the regime of the previous decade, with Medvedev's presidency being viewed as a simple punctuation mark. In Putin's new ideological branding for his third term mandate, the project of a Eurasian Union regrouping several CIS countries under some sort of supra-state structure has been one of the most widely discussed. Azerbaijan has long positioned itself as reluctant to see the revival of Russian influence in Eurasia, instead promoting a pro-American stance and participating in a "without Russia" regionalism, for example through the GUAM (Georgia-Ukraine-Azerbaijan-Moldova). However, in the last few years there has been a discernible and renewed interest in Russia among the Azerbaijani political and intellectual elite, and a more nuanced stance on the relationship to the former Soviet metropole. This paper discusses the main trends of this reshaped Azerbaijani view of Russia through the concept of Eurasianism and Eurasian integration projects.

Eurasianism in the Azerbaijani Intellectual Landscape

Eurasianism as a doctrine—having concrete origins and originators—is very often identified by the Azerbaijani public as one and the same as the general rhetoric emanating from the Kremlin establishment concerning Eurasian integration. To a certain extent, there are some grounds for such an understanding—in both cases Russia is thought of as the backbone of the Eurasian landmass—but in reality the highly theoretical ideology of Eurasianism and actual mechanisms of regional integration are somewhat different.

Eurasianism (*evraziistvo*) is an ideology, which originated in the beginning of the twentieth century among Russian emigrants in Western Europe and the

Balkans, who debated the historical mission of the Russian state, the essence of the Russian nation, and the future of the empire.² It witnessed a revival in the latter years of the Soviet Union and in independent Russia in the 1990s. Since this time, it has remained palpable in modern Russian academic discourse albeit having undergone a fairly wide spectrum of modifications—such as with the emergence of various "schools" of so-called neo-Eurasianism. However, Eurasianism as a theory is almost totally unknown among the general public in Azerbaijan, and even the so-called intelligentsia has a very limited knowledge of it. Eurasianism's classical corpus—Nikolay Trubetskoy, Petr Savitsky, Nikolay Alekseev, Georgi Florovsky, Petr Suvchinsky—is largely unknown even in academia, especially if compared with the higher degree of awareness in Kazakhstan or Kyrgyzstan.

In Azerbaijan, Eurasianism is mainly associated with the names of Alexander Dugin and Lev Gumilev. The neo-Eurasianist doctrine by A. Dugin, famous for his provocative view on Russia's world mission, its anti-American definition of Eurasia, and its strong religious or esoteric narrative, has been critically received by the Azerbaijani intelligentsia. The local interpretation of this trend almost always includes such labels as nationalism, patriotism, and neo-imperialism, and Dugin himself is rated among the most prominent supporters of the idea of Russia's great-powerness (*derzhavnost'*). Lev Gumilev (1912–1992) is seen as a less controversial author, even if he is less renowned in Azerbaijan compared to Russia or Kazakhstan. He started to gain repute as a historian and ethnographer during the 1970s, reaching his heyday in the 1980s and 1990s. He also enjoys widespread posthumous fame mainly among the patriotic-minded Russian academia. L. Gumilev's scholarly heritage is a hotbed of never-ending theoretic feuding among experts. Whereas some view and extol him as a genius, others claim that he was responsible for trying to insert "chauvinistic" rhetoric into pseudo-scholarly garments.

In Azerbaijan it is almost exclusively the Baku Slavic University, especially the "Turkic-Slavic Connections" Scientific-Research Laboratory, that has been involved in producing scholarly-based knowledge on Eurasianism,

1 Dr. Aliyev defended his Ph.D. in 2009. His monograph, *Eurasianism: A Geopolitical Discourse* (2010), is the first Azerbaijani book on the topic. During the course of his research, Dr. Aliyev cooperated with the Azerbaijan Diplomatic Academy, the Institute of Strategic Studies of the Caucasus, and the Central European University. He is one of the authors at www.kultura.az, in the framework of which he specializes in covering issues of philosophy, politics, art, and musicology.

2 See Petr Savitsky, *Kontinent Evraziya* (Moscow: Agraf, 1997); Nikolay Trubetskoy, *Nasledie Chingizkhana* (Moscow: Agraf, 2001); Nikolay Alekseev, *Russkiy narod i gosudarstvo* (Moscow: Agraf, 2000); Dmitry Shlapentokh, *Russia Between East and West: Scholarly Debates on Eurasianism* (London: Brill, 2006).

principally through the East-West (Vostok-Zapad) collection of articles in Azeri and Russian. A limited number of members of the Azerbaijani Russian-speaking intelligentsia share a balanced—in some cases even sympathetic—attitude to the Eurasianist doctrine, while some Azeri-speaking dissident circles view favorably prospects of cultural and economic integration in post-Soviet Eurasia.

This very limited interest can be explained by the fact that Azerbaijani academia is largely controlled by the political authorities and therefore viewpoints in contradiction with the state are marginalized in terms of influencing public opinion. This underdevelopment of Eurasianism as a research field needs also to be understood by a more global context: (1) the collapse of social sciences in Azerbaijan after the disintegration of the USSR, the consequences of which are still felt; (2) bureaucracy and corruption in the education system, which seriously hamper the independence of scholars and the development of research; (3) the dramatic decrease of Russia's prestige and influence in the region during the 1990s, and accordingly the unpopularity of topics related to it; and (4), by comparison, the extreme popularity of topics related to European affairs and American politics among the younger generation of scholars, who look for opportunities to study or work abroad and/or to integrate in international scholarly networks.

An Evolving Understanding of Russia-Led Regional Integration Projects

Since the beginning of the twenty-first century, after Putin's first attempts to restore Russia's driving role in Eurasia, Azerbaijani analysts and academics have started to pay closer attention to everything related to the former metropole. Accordingly, Eurasianism returned to the Azerbaijani scholarly (albeit not political) agenda, and a few articles—mostly politicized, offering a superficial or sketchy analysis of the doctrine—saw the light of day.³ Putin's pragmatism was well-received in Azerbaijan, even if his great-power narrative was not, and Russia, it must be stressed, has always been an important economic partner of Azerbaijan, mainly in the non-energy sector. Bilateral trade between the two countries is significant, attaining 1.5 billion euros in 2011.⁴ Moreover, according to various sources, the number of Azerbaijani citizens now working in Russia, and financially supporting their families and relatives thanks to remittances, varies from 120,000 to almost one million and a half, which is testimony to both countries' close social and economic ties.⁵

Today Azerbaijan is a heterogeneous mix of different traditions. On the one hand, it officially declares its commitment to Western political and social ideals, but on the other hand maintains what is in essence a "Soviet" administration intent on suppressing any dissent in society. Furthermore, it retains a patronage system based on retraditionalized regional clans and family solidarity networks and is also developing growing connections with a globalized Islamic world. In light of these seeming contradictions and dynamics, the relationship with Russia is complex and evolving.

Some among the younger generation of Azerbaijanis have grown tired of the same ruling elite that have been in power continuously during more than two decades and lack of any restraints for bureaucracy. What is more, they do not subscribe to the myth of adopting the West's values and attaining the same quality of life. Instead they exhibit a more nuanced and conciliatory attitude regarding the Soviet experience of modernization and its values—even if not always perfect in practice—of social justice. And whereas the Azerbaijani oil boom has "purchased" popular support for the regime, it can be seriously questioned whether the current elite would have been able to secure political legitimacy in the absence of resource wealth. The depletion of resources in the coming decades, negative perceptions of the elite who are seen to be "above the law," and serious social inequalities all place a big question mark over the future of Azerbaijan.

In comparison to Western countries and Turkey, Russia does not enjoy the same popularity and sympathy among Azerbaijani population. Moscow's role in supporting Nagorny Karabakh's autonomy still weighs heavily on local memory. However, many citizens have a more pragmatic rather than ideological view of the relationship. Many of them either work in Russia (or have relatives who do) or are involved in trading goods. Regardless of the unwillingness of the Azerbaijani elite to share sovereignty with Moscow, everyday-based attachment of ordinary citizens to Russia remains significant. In addition, the Russian language is still used among the population, even if at a significantly lower level than in Central Asia; while Turkish and Western TV and media offer stiffer competition to Russia's control over the information space in Azerbaijan.

Despite the citizen's bonds with Russia there are several reasons why the Azerbaijani elite are wary of Putin's declarations concerning Eurasian Union projects: fear of Russia's return as a "great power" and, to some extent, a kind of renewed, modernized incarnation of the Soviet Union; fear of a serious weakening of Azerbaijan's

3 A. Abdullaev, "Evraziystvo na meridianakh Azerbaydzhana," *Bakinskiy rabochiy*, October 3, 2002.

4 See the 2011 European Commission's statistics for Azerbaijan, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf.

5 R. Ibragimkhalilova, "Azerbaidzhansev v Rossii zhdet zhestkaya migratsionnaya politika," *Vesti.az*, June 15, 2012, <http://vesti.az/m/esas.php?id=120978>.

sovereignty in the future; limitation of the elite's access to the country's natural resources and, consequently, dramatic decrease of ruling clans' enrichment. It therefore follows, as in the majority of the Central Asian states, that the Azerbaijani elite is reluctant to share power with any kind of supra-state structure where sovereignty, even if only symbolically, is placed under question.

Moreover, and this is a key argument explaining the rather cold reception of this Eurasian leitmotiv in Azerbaijan, the Russian narrative on regional integration is not attractive to other Eurasian countries. It is clearly Russia-centric (Russia as the core driver of the Eurasian potential supra-state), and does not allow adequate room for other states' political autonomy.

One may also point out that until now the discourse on integration in the post-Soviet space has remained mainly "theoretical" without leading to any concrete action (the CIS and GUAM experiences are quite revealing in this sense). History testifies to the fact that any integration attempts in the Eurasian landmass without the active participation of Russia are practically doomed to failure. Putin once noted during his first presidency that Russia must become attractive to its bordering states—an effort that has by now been largely unsuccessful. Since the breakup of the USSR, Russia has largely failed to resolve its own serious domestic problems (corruption, regional separatism, social and economic issues, outbreaks of chauvinism, and so on), which impede it from taking any real action in integrating.

Concluding Remarks

Eurasianism will continue to remain a largely unknown doctrine in Azerbaijan for several reasons. For one, the statehood narrative is destined to maintain its pro-Western orientation even if there has been a growing disillusionment concerning the country's path toward Western political values and attempts to emulate its economic successes. There will also continue to be a cultivation of relations with Turkey. Potentially, furthermore, there will be efforts to reinforce the country's integration into the Islamic Ummah. The influence of radical Sunni Islam is expected to grow and will depend on the stability of central power, while Iran exercises its influence through specific channels.

The role of Russia as an emigration pole for the whole post-Soviet region creates a fertile background for a positive reassessment of Moscow's offer to boost regional integration. It should be borne in mind, however, that Russia's support for Armenia limits its attraction among the Azerbaijani population, with Moscow also having to address two further sets of challenges. First, the fact is that the Eurasian integration narrative is not demonstrating convincingly enough its positive impact for countries other than Russia, and therefore it raises concerns about a thinly disguised agenda for imperial revival. Second, the Kremlin has to face a real and deep distrust about its capacity to efficiently implement its promises. If Russia wants to convince at least part of the Azerbaijani population of a legitimate role in regional integration, and in fostering economic development, it has to show evidence of tackling its own domestic problems in a sustainable way before hoping to convince its neighbors.

Caspian Triangles: Azerbaijan's Trilateral Diplomacy— A New Approach for a New Era

Richard Weitz¹ (2015)

Introduction²

A series of trilateral partnerships in the Caspian-Caucuses is reinventing geopolitics and unleashing economic potential in a region eager to outrun its Cold War-era shadows and escape new peripheral tensions. Azerbaijan and Turkey are working with Georgia, Iran, and Turkmenistan through targeted multilateral projects to strengthen regional security, economic and energy development, and improve diplomatic relations between Eurasian states. The trilateral format also helps deepen ties between other Caspian Basin and South Caucasus countries, promote Eurasian-European energy collaboration through these states, and balance external pressures from a newly assertive Russia. The national security of these countries is closely related to energy production as well as balancing relations with external actors.

Azerbaijan, the driving force of these partnerships, has seen the trilateral format as supplementing bilateral and other multilateral mechanisms for promoting Azerbaijan's national security, economic development, and geopolitical independence.³ These relationships allow for Azerbaijan to fulfill a number of geopolitical objectives that might otherwise be denied it, either due to lack of capability or the presence of outside political pressure, without the risk of being controlled by larger regional powers. Despite Azerbaijan's impressive economic performance, the country is still relatively weak in comparison with its neighbors, primarily due to its relatively small size (86.6 square km, 20% of which is under Armenian occupation, with 9 million inhabitants).

Azerbaijan wants to arrange its relations in such a way that cooperating with one country does not adversely

affect its relationship with another.⁴ In particular, Azerbaijan must seek to balance its quest for greater Western ties against Russia's enduring regional influence. Essential to balancing these competing orientations is Azerbaijan's policy of diplomatic compartmentalization, which is partially advanced through trilateral diplomacy. This practice allows Azerbaijan to manage antagonistic relationships by aligning with different combinations of partners in pursuit of mutually beneficial goals. President Ilham Aliyev has also described the triangles as transcending regional boundaries and having wider international significance, such as contributing to Europe's energy security.⁵

Turkey plays a vital role in all three of Azerbaijan's trilateral diplomatic efforts. Ties with Turkey strengthen Azerbaijan's position in negotiations on regional energy and transit projects. In particular, without Turkey's participation in the triangles, Azerbaijan has much less to offer Georgia, Iran, and Turkmenistan. Relations between Azerbaijan and Turkey have remained strong for decades as the two countries share ethnic, cultural, and religious ties. The official discourse of both countries highlights their special relationship—it describes them as “one nation” living in two states, due to their deep cultural, religious, and ethnic ties.⁶ Turkey has supplied arms and other military assistance to Azerbaijan, and dozens of Azerbaijani peacekeeping troops served under Turkish military command in Kosovo. More recently, Azerbaijani and Turkish companies have begun co-producing military equipment. Turkey has a modest military training program in Azerbaijan, which has proven very valuable, given that the U.S. and other foreign sanctions have limited the level of defense cooperation Azerbaijan enjoys with the United States and other Western militaries. When Iranian air and navy forces violated Azerbaijan's borders in 2001, Turkey's warplanes made a show of force in Baku that ended the Iranian incursions. On numerous occasions, Erdoğan and other Turkish leaders have reiterated that Turkey would

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2 The author wishes to thank Derek Bisaccio, Kirsten Bruhn, Ana Chechelashvili, Steven Luber, Steven Martinez, Veronica Penney, Alden Wahlstrom, Paul Weisko, Berman Zhigalko, and especially Ayesha Haider for their help researching and editing this paper.

3 Sara Rajabova, “Nagorno-Karabakh main priority of Azerbaijan's foreign policy,” *Azernews*, July 8, 2014, <http://www.azernews.az/azerbaijan/68691.html>.

4 “Azerbaijan has further strengthened its position as developing and prospering space of cooperation,” *AzerTAc*, December 25, 2014, http://azertag.az/en/xeber/Azerbaijan_has_further_strengthened_its_position_as_developing_and_prospering_space_of_cooperation-821067.

5 Seymur Aliyev, “Ilham Aliyev: Azerbaijan-Georgia-Turkey trilateral format unique,” *Trend*, May 6, 2014, <http://en.trend.az/news/politics/2271178.html>.

6 This rhetoric has appeared even in speeches of the respective presidents. See, for instance, <http://en.president.az/articles/736/print>; <http://en.president.az/articles/52/print>.

not reopen its borders with Armenia until the Nagorno-Karabakh dispute is resolved.⁷

During its past decade under the ruling Justice and Development Party (AKP), Turkey launched a “Zero Problem with Neighbors” policy aimed at resolving the many problems the country previously had with surrounding states. For the most part, the initiatives that Turkey has launched under this formulation have failed, but the Caspian triangles stand out as partial successes, especially regarding Azerbaijan and Turkmenistan. Through its economic and political cooperation with Azerbaijan, Georgia, and Turkmenistan, Turkey has amplified its regional economic and security influence in the South Caucasus and the Caspian Basin and has established itself as an essential transit corridor and energy hub between the Caspian countries and Europe, which has become even more important with the Ukraine crisis. Although Turkey’s ties with Tehran have remained troubled, the triangle has helped reduce the prospects of a military confrontation between Iran and Azerbaijan into which Turkey and other countries could easily be dragged.

From Ankara’s perspective, having a stable source of energy imports from Azerbaijan and the Caspian reduces its dependence on Russia, which has been a leading provider of oil and gas, and could dominate Turkey’s emerging nuclear energy sector. Paying for energy imports was a major reason for the country’s \$65 billion trade deficit in 2013. In addition to consuming and transporting Azerbaijan oil and gas, Turkey has become a major partner in those projects. In 2013, Turkey became the second-largest shareholder after BP of the Shah Deniz-2 gas field.⁸ There is also much mutual investment between Azerbaijan and Turkey. At the beginning of 2015, more than 2,600 Turkish companies were operating in Azerbaijan, while nearly 1,600 Azerbaijani companies existed in Turkey. Azerbaijan’s investments in Turkey amount to \$5 billion, while Turkish investments in Azerbaijan’s economy exceeded \$6 billion.⁹ In just a few years, Azerbaijan’s investments in Turkey are projected to exceed \$20 billion due to the construction of new energy pipelines.¹⁰ Turkey’s International Cooperation and Development Agency regularly provides substantial economic aid to Georgia and to Turkmenistan as well as to Azerbaijan.¹¹

Ethnic Turks and Azerbaijanis also have contributed

heavily to the history of Georgia, Iran, and Turkmenistan, while peoples from these nations have also had an impact on the history of Azerbaijan and Turkey. In addition to reinforcing these historical, ethnic, and popular ties, Georgia, Iran, and Turkmenistan see developing connections with Azerbaijan and Turkey as a means of escaping from their relative isolation from wider European economic processes.

All these countries feel neglected by the West and are uncomfortable with Russia’s rising power as well as the possibility that more frozen conflicts may suddenly thaw, to their detriment. One of the consequences of the Russian-Ukraine war has been to highlight the security dilemmas of the countries that find themselves outside of the Washington-led NATO alliance, the Moscow-led Collective Security Treaty Organization (CSTO), or any other regional military alliance. Although none of these governments characterize the Caspian triangles as being directed against Russia or any other country, the partnerships stand to decrease their dependency on Russia through the development of energy transit routes that bypass Russian territory. This structure however, lessens Moscow’s concern by excluding ties with rival great powers like China and the United States.

Azerbaijan-Turkey-Georgia

The most developed of the Caspian trilateral partnerships is that between Azerbaijan, Turkey, and Georgia. These three states have enjoyed positive relations since the breakup of the Soviet Union, overcoming earlier periods of animosity between Turks and Georgians. But they only formalized their trilateral cooperation following the opening of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in 2006, and solidified it after the shock of the August 2008 Russian-Georgian War, which challenged their mutual economic and security interests. That said, their partnership “is rooted in growing economic and strategic interdependencies,” since Turkey needs more energy sources and wants to become a bridge between Europe and Asia, Azerbaijan is seeking to expand its regional energy and security connections, and Georgia, which is attractive to its partners due to its physical location between them, requires Western-oriented partnerships for its pursuit of Euro-Atlantic integration.¹² The South Caucasus is

7 Mushvig Mehdiyev, “Turkey reiterates its condition to open borders with Armenia,” *Azernews*, March 2, 2015, <http://www.azernews.az/azerbaijan/78470.html>.
8 Mehmet Cetingulec, “Looking to Europe, Turkey Increases Investment in Azeri Gas,” *Al-Monitor*, August 28, 2014, <http://www.al-monitor.com/pulse/ru/originals/2014/08/turkey-europe-azerbaijan-russia-tanap-natural-gas.html#>.
9 Azad Hasanli, “Azerbaijan offers Turkey to establish JVs in third countries,” *Trend*, February 7, 2015, <http://en.trend.az/business/economy/2361186.html>.
10 Zehra Aydoğan, “Socar’s investments in Turkey to reach \$20 billion,” *Hürriyet Daily News*, December 6, 2013, <http://www.hurriyetaidailynews.com/socars-investments-in-turkey-to-reach-20-billion.aspx?pageID=238&nID=59087&NewsCatID=496>.
11 Turkish Cooperation and Coordination Agency, http://www.tika.gov.tr/en/publication/list/tika_annual_reports-22.

the gateway between the Caspian and the West. They have followed the BTC with a Trans-Anatolian Pipeline (TANAP) project, a Baku-Tbilisi-Kars (BTK) railway, a bilateral working group on defense industrial production, and trilateral military exercises and security drills.

Georgia has long been interested in achieving deeper relations with the West. Tbilisi's aspiration to move closer to the EU and NATO harmonizes well with Azerbaijan's interest to increase the importance of its region to the West. Similarly, Georgia's cooperation with Turkey (a NATO member and party to a customs union with the EU) offers a connection with these Euro-Atlantic institutions.¹³ Recent governments in Tbilisi have seen Ankara as a key advocate for Georgia's ties with NATO.¹⁴ Additionally, the BTC, TANAP, and other energy pipelines and transportation conduits generate jobs and revenue, and make Georgia more important to Europe, as well as strengthen Tbilisi's ties to Euro-Atlantic structures.¹⁵ Participation in the Turkey-Georgia-Azerbaijan triangle also reduces Georgia's dependence on Russia. Energy imports from Azerbaijan provide an alternative to Russian gas, so Georgia receives only 10% of its gas imports from Russia, which Moscow supplies free of charge as payment for its use of a pipeline that transits Georgian territory to Armenia.¹⁶ Turkey has become Georgia's largest trading partner. In 2012, trade volume between the two totaled \$1.4 billion.¹⁷ Without such robust bilateral trade, the Georgian economy would have fared much worse in the wake of Russia's 2006 trade embargo. Meanwhile, Azerbaijan has become a prominent investor in the Georgian economy. In 2011, the State Oil Company of Azerbaijan (SOCAR) became the largest foreign investor in Georgia. Azerbaijan also provided Georgia with electricity and gas during its war with Russia in 2008.

Russia's decision to use overwhelming force in 2008 to defeat Georgia shocked Turkish policy makers into realizing that their margin for maneuver in Russia's backyard

might be smaller than anticipated due to Moscow's new assertiveness. To prevent further regional disorders, Ankara sought but failed to establish a multilateral regional security framework that would both dampen Moscow's assertive impulses, as well as solve frozen regional conflicts, such as that between Azerbaijan and Armenia, which might provide opportunities for further Russian military intervention.¹⁸ Turkey tried but failed to secure an Armenian military withdrawal from the territories it occupies in Azerbaijan, in return for Turkish diplomatic and economic concessions. Turkish leaders also limited their open criticism of Moscow's military intervention and subsequent dismemberment of Georgia in the hope that no such scenarios would recur in the future—only to be faced with a new crisis this past year in nearby Crimea and Ukraine.

The foreign ministers of Azerbaijan, Turkey, and Georgia met in the trilateral format in Turkey in 2012, Georgia in 2013, and Azerbaijan in 2014. These meetings have focused on reaffirming the principle of territorial integrity, constructing energy conduits and trade routes to Europe, coordinating investment in each other's countries, and emphasizing their European orientation.¹⁹ The 2012 meeting culminated in the signing of the Trabzon Declaration in which the parties committed to backing each other's candidacies for membership in international organizations. The Trabzon Declaration also supported the principal of territorial integrity applied specifically to the frozen conflicts in the occupied regions of Georgia and Azerbaijan. At their February 2014 meeting, the foreign ministers extended their collaboration goals to include science, culture, and other underdeveloped sectors as tools for building interstate relations, especially at the popular level.²⁰ On May 6, 2014, the first presidential summit occurred among the leaders of Azerbaijan, Turkey, and Georgia, which gave high-level approval to their deepening cooperation.²¹ President Aliyev recalled the three countries' historical and cultural links, and

12 Michael Hikare Cecire, "Turkey-Georgia-Azerbaijan: Trilateralism and the Future of Black Sea Regional Geopolitics," *Central-Asia Caucasus Analyst*, October 13, 2013, <http://www.cacianalyst.org/publications/analytical-articles/item/12837-turkey-georgia-azerbaijan-trilateralism-and-the-future-of-black-sea-regional-geopolitics.html>.

13 Ibid.

14 "Minister: Turkey will further help Georgia integrate into NATO," *Turkish Weekly*, July 18, 2012, <http://www.turkishweekly.net/news/138708/minister-turkey-will-further-help-georgia-integrate-into-nato.html>.

15 Michael Cecire, "Georgia-Turkey Relations in a Georgian Dream Era," *Caucasus Analytical Digest*, no. 48, March 3, 2013, <http://www.css.ethz.ch/publications/pdfs/CAD-48.pdf>.

16 "Georgia: No Plans to Import More Russian Gas," *Natural Gas Europe*, May 21, 2013, <http://www.naturalgaseurope.com/georgia-russian-gas-imports>.

17 "Turkey-Georgian Free Trade Agreement," Turkey Ministry of Economy, <http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&country=GE®ion=0>.

18 Igor Torbakov, "The Georgia Crisis And Russia-Turkey Relations" (Washington, D.C.: Jamestown Foundation, 2008).

19 Cavid Veliyev, "From Alliance to Integration: The Turkey-Azerbaijan-Georgia Triangle," *Eurasia Daily Monitor*, March 11, 2014, http://www.jamestown.org/single/?tx_ttnews%5Bpointer%5D=9&tx_ttnews%5Btt_news%5D=4207.9&tx_ttnews%5BbackPid%5D=13&cHash=647ab982af09cd8e7fb3bcc3e37a4455#U7r84o1dUdu.

20 Zaur Shiriyev, "The trilateral format: a vehicle for regional stability?" *Today's Zaman*, February 21, 2014, http://www.todayszaman.com/columnist/zaur-shiriyev_340103_the-trilateral-format-a-vehicle-for-regional-stability.html.

21 Michaël Tanchum, "Trilateral Summit Signals Turkey's Increasing Role in South Caucasus Collective Security," *Turkey Analyst*, May 28, 2014, <http://turkeyanalyst.org/publications/turkey-analyst-articles/item/111-trilateral-summit-signals-turkeys-increasing-role-in-south-caucasus-collective-security.html>.

described their trilateral format as symbolizing how “the three independent states have built modern and equal relations based on mutual understanding, respect and which correspond to the interests of our peoples.”²²

The trilateral cooperation has been centered on joint energy, transportation, and defense projects. Energy cooperation stems from the geographic location and resource endowments of the three countries: Azerbaijan possesses a wealth of natural energy resources, and supplies Turkey with oil via Georgia. This cooperation accomplishes several goals: to improve the economic relationship between Azerbaijan and Turkey; to supply Azerbaijani energy to the European market; to attract investment to the region; and to contribute to global energy security through the diversification of world export routes. In addition to the already completed Baku-Tbilisi-Ceyhan oil pipeline, which began operating in 2005, two new pipelines are being built, the Trans-Adriatic Pipeline (TAP), and the Trans-Anatolian Natural Gas Pipeline (TANAP), while the existing South Caucasus Pipeline (SCP) is being expanded. Developing pipelines to export hydrocarbons to the West generates jobs, revenue, and other benefits for all three countries. Profits achieved in the energy sector have allowed Azerbaijan, Turkey, and Georgia to implement projects that focus on expanding the non-oil sectors, specifically transportation and infrastructure development. The United States has supported the development of the pipeline, as it provides an alternate route for Caspian oil that bypasses both Russia and Iran.²³

The Baku-Tbilisi-Ceyhan pipeline, which became operational in 2006, is still integral to the functioning of the triangle. The 1768km-long pipeline transports oil from Azerbaijan’s Azeri-Chirag-Deepwater Gunashli field as well as from Turkmenistan and, most recently, Kazakhstan’s Tengiz field through the Sangachal terminal and over the territories of the three countries (443km in Azerbaijan, 249km in Georgia, and 1076km in Turkey) all the way to Turkey’s large Mediterranean terminal at Ceyhan.²⁴ More recent attention has focused on the enormous gas condensate located in the Shah Deniz field, which is being developed by a BP-led consortium. The 980

km-long SCP began transporting gas produced at Shah Deniz through a parallel pipeline to the BTC that runs through Baku to Tbilisi before turning in the direction of Erzurum.²⁵ Shah Deniz Stage 1 was completed in 2006 and currently supplies natural gas to Azerbaijan, Turkey, and Georgia. Shah Deniz Stage 2, scheduled for completion sometime in 2018, will increase the annual gas production to 25 billion cubic meters (bcm) per year from the current production of 9 billion bcm per year.²⁶

In June 2012, Erdogan and Azerbaijani President Ilham Aliyev signed an agreement to build a \$7 billion Trans-Anatolian Natural Gas Pipeline (TANAP) that also draws from the Shah Deniz field, before connecting with the SCP on the border of Georgia and Turkey and extending to the Turkey-Greece boundary. This is the first time that Azerbaijan and Turkey have partnered as energy transit countries. TANAP is projected to convey initially 16 bcm of gas per year from Azerbaijan’s Shah Deniz II field. Its capacity is scheduled to grow to 23 bcm by 2023 and to 31 bcm by 2026.²⁷ About 6 billion of the initial 16 bcm annual supply will be delivered to Turkey, with the rest slated for European consumption.²⁸ An additional route for Caspian natural gas exports to Europe was solidified in 2013 with the decision to pursue construction of the Trans-Adriatic Pipeline (TAP), a move that will solidify Azerbaijan as a European energy supplier and allow energy exports to extend further west into the EU. The proposed TAP pipeline connects with TANAP near Kipoi on the border of Turkey and Greece, traverses northern Greece and the Adriatic Sea, and ultimately ends in Italy. The TAP has a scheduled completion date in 2018 and will be operational by the time the second stage of the Shah Deniz development is finished.²⁹ Prospective energy projects might increase the significance of the triangle further. The Azerbaijani State Oil Company (SOCAR) and the French companies Total and Gaz De France Suez are developing a large natural gas field discovered at Absheron in the Azerbaijani sector of the Caspian Sea in 2011.³⁰

Building on these energy ties, mutual direct investment among these economies has increased, adding more jobs and enlarging mutual trade. Azerbaijani

22 Aliyev, “Azerbaijan-Georgia-Turkey trilateral format.”

23 “Editorial: Caspian Sea Pipeline Goes On Line,” *Voice of America*, June 6, 2005, <http://editorials.voa.gov/content/a-41-2005-06-06-voa4-83102822/1479100.html>.

24 “Baku-Tbilisi-Ceyhan Pipeline,” BP, 2015, http://www.bp.com/en_az/caspian/operationsprojects/pipelines/BTC.html.

25 “Baku-Tbilisi-Erzurum Gas Pipeline,” *State Oil Company of the Azerbaijan Republic*, 2015, <http://www.socar.az/socar/en/activities/transportation/baku-tbilisi-erzurum-gas-pipeline>.

26 “Shah Deniz Stage 2,” BP, 2015, http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage2.html.

27 Salim Avci, “Turkey focuses on deepening ties with allies in Central Asia amid changing outlook in world,” *Today’s Zaman*, March 7, 2015, http://www.todayszaman.com/national_turkey-focuses-on-deepening-ties-with-allies-in-central-asia-amid-changing-outlook-in-world_374579.html.

28 “TANAP project to contribute to world energy security,” *Trend*, June 27, 2012.

29 “Trans Adriatic Pipeline submits Third Party Access Exemptions in Albania, Greece & Italy,” *Energia.gr*, September 7, 2011, http://www.energia.gr/article_en.asp?art_id=24869.

30 Emil Ismaylov, “Absheron gas condensate field in Caspian to produce gas not earlier than 2018,” *Trend*, May 15, 2014, <http://en.trend.az/capital/energy/2274141.html>.

investment projects in Turkey encompass the construction of a port in Izmir, the acquisition of retail stores in Istanbul, and the new STAR oil refinery and “Aegean Gateway Terminal” container port on Turkey’s Aegean coasts.³¹ Azerbaijan also increased its investments in the Georgian economy by more than \$800 million from 2006 through 2011.³² Azerbaijan, Turkey, and Georgia also cooperated on the construction of the Trans-Asia-Europe fiber-optic communications line, the TAE FOC, which runs from Shanghai to Frankfurt-am-Main. On January 15, 2015, President Aliyev said that Turkish companies have implemented \$10 billion worth of projects in Azerbaijan, while Azerbaijani investment in Turkey will reach an estimated \$20 billion by 2020.³³

Efforts to launch a China-Kazakhstan-Caspian-Caucasus-Turkey container train, termed the Silk Wind project, fostered collaboration between Kazakhstan, Azerbaijan, Turkey, and Georgia. The Silk Wind project, initiated under the TRACECA program, aims to “create a multimodal train route (container/RO RO) with a primary information exchange system between customs services and railway operators of the project’s partners based on a single tariff for cargo transport.”³⁴ However, after Beijing announced its plans to construct a \$242 billion, 7000 km high-speed railway running from Beijing to Moscow, the future of the Silk Wind project remains unclear.³⁵ The BTK rail project will connect Azerbaijan and Turkey via Georgia, and constitute a key link in a China-to-Europe overland transit system.³⁶ A transition center in Akhalkalaki to convert European trains to Georgian tracks will facilitate the transportation of 30 million tons of cargo a year via the rail network.³⁷ Political unrest in Georgia caused delays in completion of the Georgian section of the railway, which is being supported by Azerbaijani loans, and progress has slowed in Turkey, partly as a result of security concerns regarding Syria.³⁸ However, a test train

ran in late January 2015 and the rail way is projected to be fully operational by the end of 2015.³⁹ This new transport line will also accommodate the shipment of oil exports from Kazakhstan’s Kashagan oil field, the discovery of which is the largest of its kind in the last forty years.⁴⁰ The BTK railway could rival Russia’s Trans-Siberian Railway.⁴¹ The Turkish Economy Minister projected that the BTK railway would transport 17 million tons of goods and 3 million passengers by 2034.⁴²

Meanwhile, security cooperation among Azerbaijan, Turkey, and Georgia has included joint military exercises, defense industrial cooperation, and pipeline security drills. Although Turkey is a member of NATO, Azerbaijan and Georgia find themselves uncomfortably outside both the transatlantic and the Moscow-led Eurasian defense alliances. Both Azerbaijan and Georgia have welcomed Turkey as a security partner in a troubled neighborhood. Although Turkey’s 2008 Caucasus Stability and Cooperation Platform, aimed at decreasing tensions in the South Caucasus following the Russia-Georgia War, failed to develop into an enduring organization, the initiative successfully signaled Ankara’s newfound commitment to enhancing the region’s security.⁴³ Military exercises involving Azerbaijan, Turkey, and Georgia now take place regularly. For example, the annual ETERNITY drills feature training exercises to protect the oil and gas pipelines that cross the territory of the three countries.⁴⁴ Azerbaijani, Georgian, and Turkish special forces have also conducted a trilateral military exercise, called “The Caucasus Eagle.”⁴⁵ Georgia requested that Azerbaijani and Turkish forces be included in Georgia’s annual exercises with U.S. forces in 2014.⁴⁶ The three countries have also established a joint transit plan to aid the withdrawal of NATO-led troops from Afghanistan that use trilateral transportation and communications networks.⁴⁷ The defense ministers of Azerbaijan, Turkey, and Georgia

31 Michaël Tanchum, “The AKP’s underappreciated foreign policy achievement,” *Hurriyet Daily News*, July 21, 2014, <http://www.hurriyetaidailynews.com/the-akps-underappreciated-foreign-policy-achievement.aspx?pageID=449&nID=69384&NewsCatID=396>.

32 “Azerbaijan increases investments in Georgia by 50 per cent,” *Trend*, February 16, 2012.

33 “Azerbaijani investments in Turkey to reach \$20B until 2020 - President Aliyev,” *Trend*, January 15, 2015.

34 Daniyar Mukhtarov, “Agreement on Silk Wind project expected to be signed in summer,” *Trend*, May 22, 2014.

35 Michael Arnold, “China, Russia Plan \$242 Billion Beijing-Moscow Rail Link,” *Bloomberg*, January 21, 2015, <http://www.bloomberg.com/news/articles/2015-01-22/china-russia-plan-242-billion-rail-link-from-beijing-to-moscow>.

36 “Azerbaijan, Georgia, Turkey Reiterate Partnership with Trilateral Summit,” *Civil Georgia*, May 6, 2014, <http://www.civil.ge/eng/article.php?id=27204>.

37 “Turkish minister: Baku-Tbilisi-Kars railway project to be completed in 2014,” *Trend*, July 3, 2013.

38 Sam Applegate, “First Test Train on BTK Railway,” *MENA Rail News*, January 30, 2015, <http://www.menarailnews.com/first-test-train-btk-railway/>.

39 “First test train operates on Baku-Tbilisi-Kars Railway,” *Agenda.ge*, January 28, 2015, <http://agenda.ge/news/28897/eng>.

40 Tanchum, “The AKP’s underappreciated foreign policy achievement.”

41 Michael Hikare Cecire, “Turkey-Georgia-Azerbaijan.”

42 A. Taghiyeva, “Turkish Minister: Baku-Tbilisi-Kars to be step toward active development of Caucasus and Central Asia,” *Trend*, June 28, 2012.

43 Cecire, “Georgia-Turkey Relations in a Georgian Dream Era.”

44 “Azerbaijan, Georgia and Turkey start military trainings in Ankara,” *Azeri-Press*, September 24, 2012.

45 “Azerbaijan-Georgia-Turkey: Trilateral Alliance and the Future of Regional Politics,” SAM Center for Strategic Studies, May 2014, http://sam.az/uploads/PDF/Az-Geo-Tr%20kitab%20a4%20for_Web.pdf.

46 Cecire, “Turkey-Georgia-Azerbaijan.”

47 “Azerbaijan, Turkey and Georgia present joint transit plan for ISAF troop withdrawal from Afghanistan,” *Interfax*, November 6, 2012.

began to have regular meetings in August 2014 to discuss regional stability and military cooperation.⁴⁸

Azerbaijan-Turkey-Iran

Azerbaijan, Turkey, and Iran represent a more complex Caspian triangle. Tehran's interests in the partnership include gaining trade and investment opportunities with its neighbors, and bolstering Iranian security. These two goals are intertwined, as demonstrated by the creation of front companies in neighboring states that enable Iran to evade sanctions. Conversely, religious factors appear to play no role in Tehran's choice of regional partners. The Islamic Republic of Iran has developed better ties with its Christian regional neighbors (Armenia and Georgia) than with Erdoğan's Sunni Muslim Turkey or the Shiite majority government of Azerbaijan. Given Iran's poor relations with Azerbaijan and Turkey, this trilateral construct has helped moderate their differences in a conflict-prone region. Past tensions between Iran and Turkey have centered on their rivalry for regional leadership as well as on their support for different local allies, as seen most recently in Iraq, Syria, and Yemen.⁴⁹ Tehran opposes the secular and Western orientation of its two neighbors, and challenges the sovereignty and legitimacy of the newly independent state of post-Soviet Azerbaijan, whose existence was seen as a potential existential threat to Tehran's control over its large Azerbaijani minority. A nuclear deal between Iran and its P5+1 negotiating partners might open opportunities for moving the triangle in a more positive direction, but it might require a regime change in Tehran before it is possible to achieve a deeper partnership based on respect for national sovereignty and joint cooperation in the development of Caspian energy resources.

Although Azerbaijanis share extensive historical and cultural ties with Iranians, since Azerbaijan regained independence in 1991, many ethnic Azerbaijanis began to reside in northern Iran ("Southern Azerbaijan"), and Tehran is concerned about the possibility of separatist and independence movements there. Azerbaijan's secular, government pro-Western orientation, and its independent energy and military policies have also angered Tehran. As a result, Azerbaijan has suffered from Iranian threats since its independence in 1991, though these have declined in

recent months. These have ranged from warnings of Iranian retaliation over Azerbaijani assistance in any military strike against Iran to Iranian-linked assassination attempts against Jewish and Western targets inside Azerbaijan.

Whereas Iran's relations with Azerbaijan have remained consistently poor since Azerbaijan became an independent state again in 1991, Tehran's ties with Turkey improved under the AKP government a few years ago, only for them to relapse again more recently into mutual acrimony. The foreign ministers of Azerbaijan, Turkey, and Iran met in Iran in April 2011, in Azerbaijan in March 2012, and in Turkey in 2014. Increasing economic cooperation is a declared focus of the tripartite ministerials. At their 2011 meeting, the countries "agreed to form a trilateral economic committee to examine means for signing a preferential trade agreement, easing customs affairs, modernizing border points, and establishing joint companies."⁵⁰ At their 2012 meeting in Azerbaijan's region of Nakhchivan, the foreign ministers released a joint statement declaring that, "the Parties shall continue to work together in order to further strengthen economic and commercial ties as well as to promote the level of welfare and prosperity in their respective countries."⁵¹ The March 2014 meeting in Van, Turkey reiterated the sentiment of promoting economic relations.

The most ambitious objective of these talks is the establishment of a trilateral common market that could serve as the basis for such a market in the larger region. The 2012 meeting in Nakhchivan, in particular, focused on this goal and called for the subcommittees for trade, industry, and investments to gather later that year.⁵² Much of these efforts are channeled through the Economic Cooperation Organization, which comprises the three countries, as well as other states in the South Caucasus and Central Asia regions. In 2012, notably, Iran created the Maku free economic area, which comprises several cities near the border with Nakhchivan. Iran has called on Turkey and Azerbaijan to invest in the Maku free economic area, with promises that goods produced and exported from there would be exempt from customs duties.⁵³ The Maku economic area, as well as other trade areas, contributes to establishing a foundation for the type of common market that the tripartite group has discussed at length but not yet implemented.

48 "Azerbaijan, Turkey and Georgia will hold joint military exercises," *Turan Information Agency*, August 19, 2014.

49 Humeyra Pamuk, "Turkey's Erdogan says can't tolerate Iran bid to dominate Middle East," *Reuters*, March 27, 2015, <http://in.reuters.com/article/2015/03/26/yemen-security-turkey-idINKBN0MM2NW20150326>.

50 "Turkey, Iran, Azerbaijan FMs to hold tripartite meeting in Van," *Today's Zaman*, March 12, 2014, <http://www.todayszaman.com/news-341912-turkey-iran-azerbaijan-fms-to-hold-tripartite-meeting-in-van.html>.

51 Republic of Turkey Ministry of Foreign Affairs, "Nakhichevan Statement of the Ministers of Foreign Affairs of the Republic of Azerbaijan, the Islamic Republic of Iran and the Republic of Turkey, March 7, 2012, Nakhichevan," http://www.mfa.gov.tr/nakhchivan-statement-of-the-ministers-of-foreign-affairs-of-the-republic-of-azerbaijan_-the-islamic-republic-of-iran-and-the-republic-of-turkey_-07-march-2012_-nakhchivan.en.mfa.

52 "Azerbaijani, Turkish, Iranian FMs adopt new declaration," *Itar-Tass*, March 7, 2012.

53 "Iran's checkpoint on border with Azerbaijan to work around clock," *Trend*, November 25, 2014. <http://en.trend.az/azerbaijan/business/2336417.html>.

Promoting mutual energy security is another important aspect of the trilateral network. The 2012 statement addressed energy twice, with the parties pledging to “further develop relations” in the field of energy and “support the right to develop peaceful nuclear energy within the Treaty on Non-Proliferation of Nuclear Weapons (NPT) framework without any discrimination and inequality.”⁵⁴ Given the interconnectedness of their energy ties, expansion of trilateral cooperation in this sector seems logical. Turkey relies heavily on energy imports to fuel its domestic consumption, and both Azerbaijan and Iran rely on energy exports as significant and essential sources of revenue. Although Azerbaijan is trying to develop its non-hydrocarbon revenue, 90% of Azerbaijan’s total exports still consist of oil and gas.⁵⁵ Ironically, the Nakhchivan region, being disconnected from the rest of Azerbaijan’s pipelines due to Armenia, depends on Iran for its natural gas. In 2012, Turkey imported 35% of its oil and 18% of its natural gas from Iran.⁵⁶

Facilitating transportation among the three countries is crucial to expanding relations and deepening economic ties. Since Azerbaijan and Turkey do not have open borders with Armenia, Azerbaijan is an important transit hub for material from the Caspian and Iran.⁵⁷ Turkey is regarded as both a market and a gateway for products bound for Europe. Transportation also can be a source of contention, however, particularly as most Azerbaijani supplies to the Nakhchivan region must travel through Iranian territory, and are therefore subject to pressure from Tehran. The 2011 meeting included discussion on eliminating “obstacles at customs points,” with a goal to producing “a memorandum on customs cooperation” among the three parties.⁵⁸ The Nakhchivan meeting acknowledged the barriers to trilateral transportation cooperation, while the text merely called for “incremental measures” on such issues as visa-free travel. Even so, some progress can be seen. A recent deal between Iran and Azerbaijan allows for Iranians to get a 15-day visa at the Azerbaijani border in order to visit Nakhchivan, though to visit any other

area in Azerbaijan they must still apply at Azerbaijan’s consulates.⁵⁹ According to the Deputy Minister of Urban Development and Road Maintenance of Iran, Dawood Keshavarzian, Iran’s entry-exit passenger terminals “will facilitate the entry and exit of citizens of Azerbaijan.”⁶⁰ A key topic of discussion at the meeting in Van in 2014 was the linking of the highways of the three countries. Both Turkey and Iran recently signed a deal of preferential treatment that came into force at the start of 2015 and could prevent renewed disputes over trucking.⁶¹ Since Turkey has many agreements in the field of transportation with Azerbaijan, trilateral transportation cooperation now requires further cooperation between Azerbaijan and Iran.

Trilateral security collaboration is in the form of security assurances instead of more positive mutual commitments to joint defense. At the 2012 Nakhchivan meeting, the parties announced that under no circumstances would they use, or allow their territories to be used, “for any threat and activity against each other which may lead to hostilities.”⁶² Without such assurances, progress in cooperation in the other fields would be further stymied. Azerbaijan, in particular, has been wary of becoming too economically interdependent with its much larger Iranian neighbor, given their mutual mistrust and Iran’s close relations with Armenia. Iran has worried about the potential for Israel and the United States to use Azerbaijan as a staging ground for a conflict. Turkey is therefore an integral link in the trilateral network, since it acts as a crucial guarantor of security for Azerbaijan. The trilateral meetings emphasized the parties’ “firm commitment to strengthen their cooperation in the fight against terrorism and extremism in all their forms and manifestations, transnational organized crime, narcotics, arms and human trafficking and migrant smuggling.”⁶³ There are many forms of trafficking occurring, including in narcotics, arms, and humans, and they reach different destinations. They pose significant negative effects for international security, not just for Azerbaijan, Turkey, and Iran, but also for the broader Central Asian, South

54 “Nakhichevan Statement.”

55 “Azerbaijan Overview,” US Energy Information Administration, August 1, 2014, <http://www.eia.gov/countries/analysisbriefs/Azerbaijan/azerbaijan.pdf>.

56 US Energy Information Administration, “Turkey Overview,” <http://www.eia.gov/countries/analysisbriefs/Turkey/turkey.pdf>.

57 Gulgiz Dadashova, “Azerbaijan’s transport infrastructure, Iran’s export potential make cooperation more alluring,” *AzerNews*, November 14, 2014, <http://www.azernews.az/analysis/73284.html>.

58 “Azerbaijan, Turkey and Iran to sign customs cooperation memorandum,” *Trend*, April 15, 2011. <http://en.trend.az/azerbaijan/politics/1861607.html>.

59 “Iranian tourists can get Nakhichevan visa at border,” *Thomson Reuters*, September 20, 2014. http://www.zawya.com/story/Iranian_tourists_can_get_Nakhichevan_visa_at_border-ZAWYA20140921054646/.

60 Temkin Jafarov, “Entry-exit in Iran to be facilitated for Azerbaijani citizens,” *Trend*, October 31, 2014. <http://en.trend.az/azerbaijan/society/2328274.html>.

61 “Railway investments ‘must for Turkey, Iran,’” *Hurriyet Daily News*, January 5, 2015. <http://www.hurriyetdailynews.com/railway-investments-must-for-turkey-iran.aspx?pageID=238&nID=76530&NewsCatID=344>.

62 “Nakhichevan Statement.”

63 Republic of Turkey Ministry of Foreign Affairs, “Van Statement of the Third Trilateral Meeting of the Ministers of Foreign Affairs of the Republic of Azerbaijan, the Islamic Republic of Iran and the Republic of Turkey, March 14, 2014,” <http://www.mfa.gov.tr/van-statement-of-the-third-trilateral-meeting-of-the-ministers-of-foreign-affairs-of-the-republic-of-azerbaijan-the-islamic-rep.en.mfa>.

Caucasian, Eurasian, and European regions. While the tripartite group may pledge to fight terrorism in principle, in practice this can be a contentious subject. Iran's Syrian ally, President Bashar al-Assad, considers all rebel factions fighting his government to be terrorists, while Turkey is arming those same groups to overthrow him. In the past, Turkey and Iran have supported Kurdish terrorist groups in their fights in the other country. Turkey and Iran have yet to cooperate directly against the so-called Islamic State in Iraq and the Levant (ISIL), a terror organization operating primarily in Iraq and Syria.

Due to Tehran's ties with Yerevan, President Aliyev has said that, "For Azerbaijan, Iran is crucial to the resolution of the Karabakh conflict."⁶⁴ Yet, Iran has called for a restoration of peace between Azerbaijan and Armenia, but not for the return of the occupied territories.⁶⁵ In theory, given Iran's ties with Armenia, Tehran is in a position to apply pressure on Yerevan, even indirectly through curtailing economic and other assistance to Armenia, in order to work toward a more lasting agreement. In practice, Tehran has refrained from exerting its leverage on behalf of its supposed new partners. More generally, mutual distrust, regional rivalries, international sanctions, and other obstacles have impeded this proposed economic, energy, transportation, and security cooperation. While all parties regularly express interest in pursuing joint projects, they acknowledge difficulties in doing so. Speaking after the 2012 Nakhchivan meeting, Iranian Foreign Minister Salehi indicated that there is a strong bond between the three countries "but this does not...mean that there is no disagreement between us."⁶⁶

Iranian President Hassan Rouhani, elected in 2013, has signaled his interest in expanding Iran's regional investment. In August 2014, Iran and Azerbaijan signed a memorandum of understanding that included collaboration for joint ventures.⁶⁷ The economic sanctions on Iran, however, remain a major obstacle to trilateral business projects. Rouhani has pursued negotiations over his country's nuclear program in an effort to remove the sanctions, which would facilitate economic cooperation with Azerbaijan, Turkey, and other countries. Iran

maintains that its nuclear program is peaceful and should be afforded the guarantees of nuclear development under the NPT.⁶⁸ The trilateral network seems to endorse that position, at least on paper, which likely stems from their perception of economic benefit if the sanctions on Iran are removed either in whole or in part. Both Baku and, more reluctantly, Ankara have maintained at least the UN-mandated sanctions against Iran, but the 2012 Nakhchivan statement shows they are preparing for a further relaxation of the sanctions, when they will be able to broaden their investments in Iran. Meanwhile, the parties have focused on making incremental progress in their tripartite relations, while hoping to expand their partnership should more favorable conditions arise, such as after a nuclear deal that ends most international sanctions.

Azerbaijan-Turkey-Turkmenistan

The foreign ministers of Azerbaijan and Turkey met together for the first time with their Turkmen counterpart in Azerbaijan on May 26, 2014.⁶⁹ At this ministerial, the participants agreed to continue collaboration on regional and global issues between their respective foreign ministries, and within the framework of international organizations. The ministers also expressed readiness to support each other's candidacies at the UN and other international organizations.⁷⁰ Only a week later, the presidents of the three countries met on the sidelines of a session of the Cooperation Council of Turkic-Speaking States summit.⁷¹ After these meetings, on June 30, Turkmenistan established an embassy in Tbilisi to facilitate further relations with that partner.⁷² The second of these meetings of the foreign ministers from Azerbaijan, Turkey, and Turkmenistan took place in Ashgabat on January 29, 2015. Energy cooperation dominated the agenda, specifically the delivery of Azerbaijani and Turkmen gas from the Hazar basin gas to Europe via Turkey.⁷³ All three parties "noted the importance of expanding cooperation between energy companies, adding that organizing a trilateral meeting of representatives of oil and

64 Joshua Kucera, "Rouhani Visits Baku As Azerbaijan-Iran Conflicts Fade Into Past," *EurasiaNet*, November 16, 2014, <http://www.eurasianet.org/node/70946>.

65 Sara Rajabova, "Iran calls for restoration of peace between Azerbaijan and Armenia," *AzerNews*, July 24, 2014, <http://www.azernews.az/azerbajian/69103.html>

66 "Iranian FM: Baku, Ankara and Tehran may create common market in region," *Trend*, March 7, 2012, <http://en.trend.az/azerbajian/2001104.html>.

67 "Iran, Azerbaijan Sign MoU on Trade, Joint Venture," *Fars*, August 9, 2014, <http://english.farsnews.com/newstext.aspx?nn=13930518000986>.

68 "President Rouhani: Iran Accepts Only Good Deal with Powers," *Fars*, March 4, 2015, <http://english.farsnews.com/newstext.aspx?nn=13931213001262>.

69 "FMs of Azerbaijan, Turkmenistan, Turkey Discuss Ties in Baku," *RFE/RL*, May 26, 2014, <http://www.rferl.org/content/fms-of-azerbajian-turkmenistan-turkey-discuss-ties-in-baku/25398450.html>.

70 "First Trilateral Meeting of the Foreign Ministers of Turkey, Azerbaijan and Turkmenistan held in Baku," Republic of Turkey, Ministry of Foreign Affairs, http://www.mfa.gov.tr/first-trilateral-meeting-of-the-foreign-ministers-of-turkey_azerbajian-and-turkmenistan-held-in-baku.en.mfa.

71 "Azerbaijani, Turkish and Turkmen presidents hold trilateral meeting," *APA*, June 5, 2014, <http://en.apa.az/news/212344>.

72 Tanchum, "The AKP's underappreciated foreign policy achievement."

73 "Meeting of the Ministers of Foreign Affairs of Turkey, Azerbaijan and Turkmenistan was held in Ashgabat," Turkey Ministry of Foreign Affairs, January 29, 2015, http://www.mfa.gov.tr/turkey_azerbajian_turkmenistan-ey_in-meeting-of-the-ministers-of-foreign-affairs.en.mfa.

gas companies is expedient.”⁷⁴ Beyond energy transport, Azerbaijan, Turkey, and Turkmenistan also discussed reviving the Silk Road. They specifically discussed a possible project for an Afghanistan-Turkmenistan-Azerbaijan-Georgia-Turkey transportation link.⁷⁵ Plans for this and other transportation projects will continue to be developed during subsequent trilateral summits. The foreign ministers of Azerbaijan, Turkey, and Turkmenistan have agreed to convene biannual trilateral meetings.⁷⁶

The Azerbaijan-Turkey-Turkmenistan tripartite format has the potential to assist Turkmenistan in achieving important economic and political goals. Due to the isolationist policies of former President Saparmurat Atayevich Niyazov, restrictions on foreign direct investment in the country, and Ashgabat's continuing policy of eschewing ties with multinational institutions, Turkmenistan has not developed strong diplomatic or political ties with other countries or international organizations.⁷⁷ Partnering with Azerbaijan and Turkey will assist Turkmenistan in bolstering its diplomatic clout in its region and in international organizations. The declaration signed at the first tripartite meeting affirms the “importance of holding regular trilateral meetings in order to strengthen political dialogue, coordination and expansion of cooperation in regional and international issues.” Due to its cultural and geographical proximity, mutual economic and security interests, and other factors, Turkey is in a good position to promote cooperation between Turkmenistan and Azerbaijan, as well as to support economic and energy projects that transit its territory. However, continuing differences between Baku and Ashgabat, as well as other constraints on Ashgabat's foreign policy flexibility, still limit this triangle from realizing its full potential.

The Azerbaijan, Turkey, and Turkmenistan triangle has thus far focused primarily on promoting economic cooperation, though there is hope that energy and security collaboration may follow. Turkmenistan's main national resource is its enormous natural gas reserves. Although Russia has traditionally been the main importer, China has become a major buyer in recent years, helping to construct enormous east-west gas pipelines from Turkmenistan and

neighboring states. The impending completion of the fourth branch of the Central Asia-China pipeline in 2016, combined with Russia's economic slowdown, will likely see China's demand for Turkmenistan's natural gas rise further above 50% of Turkmenistan's annual production. As the Caspian Sea region's largest natural gas exporter, Turkmenistan stands out among countries to which Europeans look to reduce their energy dependence on Russia.

According to information from the U.S. Energy and Information Administration, Turkmenistan produced more than 2.5 trillion cubic feet of dry natural gas in 2012, exporting approximately 1.6 trillion cubic feet of it to other countries via pipelines. China received the majority of these exports, while Russia and Iran were also significant importers. The Agency estimates that Turkmenistan has proven natural gas reserves of about 265 trillion cubic feet.⁷⁸ Turkmenistan requires Azerbaijan's assistance to ship its energy products to Europe without going through Russia. If Turkmenistan sends natural gas to Europe through TANAP, the pipeline's volume could increase by one bcm per year.⁷⁹

The growing economic and energy cooperation among Azerbaijan, Turkey, and Turkmenistan may at some point extend to the security realm. The Baku Declaration signed by the three foreign ministers after their May 2014 meeting highlights the importance of cooperation “in the fight against terrorism, extremism, transnational organized crime, drug trafficking, human trafficking, illegal migration, and trafficking in arms.”⁸⁰ Traditionally neutral, Turkmenistan has resisted Russian pressure to cooperate with the Moscow-led Collective Security Treaty Organization and has not encouraged China to break its longstanding policy of limiting its defense commitments in Central Asia. Turkmenistan's security leaders may, however, share Central Asian concerns about the declining U.S. and NATO military presence in their region, and the perceived reluctance of Western powers to confront Russia's regional revival directly. Some regional analysts speculate that Turkmenistan may therefore seek greater Turkish security assistance to counter the threat from Islamist terrorists in nearby Afghanistan, and more recently the Islamic State in Iraq and Syria, which has sought to recruit Central Asians and expand its influence in Eurasia.⁸¹

74 “Azerbaijani, Turkmen, Turkish FMs Adopt Joint Statement,” *Azeri-Press*, January 29, 2015, http://en.apa.az/xeber_azerbajani__turkmen__turkish_fms_issue__222372.html.

75 “Azerbaijani, Turkish, Turkmen Foreign Ministers Discuss Trilateral Ties,” *RFE/RL*, January 29, 2015, <http://www.rferl.org/content/azerbajani-turkish-turkmen-fms-in-ashgabat/26819780.html>

76 Tanchum, “The AKP's underappreciated foreign policy achievement.”

77 Mukhit Assanbayev, “Geopolitics of Turkmenistan and Kazakhstan in the Caspian Region,” in *The Caspian Sea Chessboard*, ed. Carlo Frappi and Azad Garibov (Egea Online, September 2014), 143-161, <http://sam.az/uploads/PDF/The%20Caspian%20Sea%20Chessboard.pdf>; and “Round-table in Astrakhan discusses Turkmenistan's neutrality,” *Turkmenistan.ru*, March 24, 2015, <http://www.turkmenistan.ru/en/articles/17885.html>.

78 “Turkmenistan,” U.S. Energy Information Administration, July 2014, <http://www.eia.gov/countries/country-data.cfm?fips=TX&trk=m>.

79 Tanchum, “The AKP's underappreciated foreign policy achievement.”

80 “Baku, Ankara, and Ashgabat Strengthen Trilateral Cooperation,” *Turan*, May 26, 2014.

81 Salim Avci, “Turkey focuses on deepening ties with allies in Central Asia amid changing outlook in world,” *Today's Zaman*, March 7, 2015, http://www.todayszaman.com/national_turkey-focuses-on-deepening-ties-with-allies-in-central-asia-amid-changing-outlook-in-world_374579.html.

Despite its novelty, the recent development of trilateral ties between Azerbaijan, Turkey, and Turkmenistan has grown out of longstanding bilateral relationships. The most substantial of these bilateral connections are those that Azerbaijan and Turkmenistan respectively maintain with Turkey. As discussed above, Azerbaijan and Turkey have deep historical, ethnic, diplomatic, economic, energy, and security ties. Although the Turkey-Azerbaijan economic relationship is more developed, the Turkey-Turkmenistan economic relationship is growing, especially in the construction sector.⁸² For example, Turkish companies are building a \$2 billion seaport at Turkmenbashi alongside a container terminal, as well as a distribution center, and shipyards.⁸³ Europe's fervent desire to diversify natural gas imports away from Russian pipelines has motivated Turkey to reach deep into the Caspian Sea region in an attempt to increase gas supplies through a Southern Gas Corridor. President Erdoğan's visit to Ashgabat in November 2014 highlights Ankara's ambitions of tapping into Turkmen gas reserves.⁸⁴ Turkmenistan President Gurbanguly Berdimuhamedov and Erdoğan again discussed energy cooperation at their bilateral summit in 2015. Building on these bilateral presidential visits and the trilateral ministerial meeting, the three presidents intend to meet again for their first trilateral summit.⁸⁵

These relationships form the foundation for the possible delivery of Turkmenistan's gas through TANAP to Europe. This would give new life to the possibility of a Trans-Caspian pipeline, something that the EU has been trying to negotiate since the late 1990s.⁸⁶ Having lost attention in the early 2000s, this project started to regain momentum in 2011, when the EU Council issued a mandate for negotiations with Azerbaijan and Turkmenistan towards building a Trans-Caspian pipeline.⁸⁷ However, the main impetus for momentum

behind this project has shifted from the EU to Turkey; what was referred to as the European Southern Gas Corridor will likely be called the Turkic Corridor.⁸⁸ Nonetheless, negotiating a Trans-Caspian pipeline will be no simple task. Cooperation has so far been limited by the dispute between Azerbaijan and Turkmenistan over several oil deposits in the Caspian Sea, especially the undeveloped Serdar/Kyapaz oil field.⁸⁹ When Turkmenistan announced it was conducting geological surveys in the Kyapaz field, irritated Azerbaijani officials brought up a 2008 bilateral agreement that prohibits both from working on fields whose ownership is disputed between their two countries. Furthermore, Azerbaijani gunboats conducted intimidating maneuvers near Turkmenistan's oil platforms close to the border between the two countries. Disputes flared up again in June 2012, when the Azerbaijani Coast Guard found a seismic vessel belonging to Turkmenistan busy exploring the Kyapaz-Serdar field.⁹⁰ Disagreements between Azerbaijan and Turkmenistan concerning the ownership of various energy deposits in the Caspian Sea relate to such core values as territorial integrity, border security, and economic development.⁹¹ Turkey has been attempting for several years to broker a compromise, though so far with only limited success.⁹² In addition, opposition to a Trans-Caspian pipeline from Iran and Russia is hindering Azerbaijan-Turkey-Turkmenistan energy cooperation.

Nevertheless, progress is being made. A joint statement released after the first trilateral meeting in 2014 stressed the importance of the three countries' working together to promote energy security.⁹³ This topic received even more attention during the joint summit in January 2015, at which energy cooperation was the main topic.⁹⁴ Previously, Turkmenistan was hesitant to commit to the export of its gas across the Caspian and through the South Caucasus due to its tensions with Azerbaijan,

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- 82 Aytac Gokmen and Dilek Temiz, "Construction Business as a means to Internationalize and Develop: A Critical Analysis of the Turkish Construction Sector & Reflections on the Economy," *Journal of Business Economics and Political Science* 1, no. 2 (December 2012): 60, <http://docplayer.biz.tr/9191232-Volume-1-number-2-december-2012.html>.
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its traditional policy of neutrality, a preference for using existing pipelines to include the recently built one to China, a lack of EU financial support to construct a new pipeline, and Russian and Iranian opposition to trans-Caspian east-west energy pipelines. Turkmenistan may recalculate however, due to the growing economic and energy cooperation among Azerbaijan, Turkey, and Turkmenistan; to Russia's renewed assertiveness; security threats to Turkmenistan from Afghanistan and the Islamic State; Gazprom's declining purchases of Turkmenistan gas; the decreasing U.S. security influence in Eurasia and Turkey's growing regional security capabilities; the possible reduction of international sanctions on Iran; and other developments.⁹⁵

Caspian Complexities

For all the participants in these triangles, pursuing trilateral partnerships offers an advantage over regional bilateral relationships, since members can form strong bonds with neighboring states without requiring the time-consuming negotiation of formal alliances that could compromise their independence, national identity, or pursuit of strategic relationships with other actors. The "trilaterals" facilitate cooperative projects, but do not compromise diplomatic flexibility. They are easy to create, but also to dissolve, as the goals of each partner naturally evolve.⁹⁶

Nonetheless, unresolved disputes over borders and usage rights in the Caspian Sea remains a major hindrance to realizing the Caspian Triangles' economic potential. Although described as a "sea," many geographers consider the Caspian to be the world's largest inland lake. International law applies differently to the two types of water bodies, including how to resolve competing national territorial claims. International law does not apply to the delimitation of lakes, leaving the decision up to the interested parties, while the division of seas into sectors should be made in accordance with the 1982 UN Convention on the Law of the Sea. Since Iran's own Caspian shelf has relatively little oil and gas, Tehran has favored the latter approach. Iranian officials still insist on the continued validity of two Soviet-era treaties that describe the Caspian as a "common sea," pending their replacement by a new convention ratified by all five Caspian states.⁹⁷ These treaties, signed in 1921 and 1940, assign Tehran and Moscow joint management of the Caspian beyond territorial zones. But the new post-Soviet republics do not accept the continued validity of these treaties, which in any case cover only navigation and fishing, not undersea mining.

Another unresolved dispute concerns potential Trans-Caspian energy pipelines. Iran and Russia insist that all littoral countries must approve any and every energy pipeline that is planned to cross any part of the Caspian, since all could suffer from any environmental damage done to the Caspian Sea. A desire to block east-west energy conduits that bypass Iranian and Russian territory might also explain Moscow's and Tehran's demand for veto rights over trans-Caspian pipelines. The Caspian Sea summits held in Turkmenistan in 2002, Iran in 2007, Azerbaijan in 2010, and the Russian city of Astrakhan in 2014 have failed to resolve these disputes. The five littoral states have signed several joint declarations of principles and adopted concrete environmental cooperation agreements. In other cases, these countries have resorted to bilateral and "mini-lateral" security initiatives that exclude one or more of the other littoral states. For example, in May 2003, Kazakhstan, Azerbaijan, and Russia agreed to split the northern 64% of the Caspian Sea into shares, with Kazakhstan receiving the largest portion. Iran and Turkmenistan, however, refused to endorse this trilateral agreement and restated their proposal for an equal share for all five littoral states, which would give these two countries bigger economic zones than provided for in the 2003 formula. Azerbaijan and Turkey can try to use their new Caspian diplomatic ties to push their preferences regarding Caspian legal issues—with legally agreed sectorial delineation and rules permitting bilateral projects not to require the consent of other states.

The modest U.S. and European support for trans-Caspian projects has also limited the triangles' potential. The West has strained relations with all five governments directly involved in the triangles, as well as with many other Eurasian states. Western governments and non-governmental organizations have criticized these governments' restrictions on political pluralism and deviation from free market principles. For their part, the five governments participating in the Caspian triangles, whose security relations with Moscow are also strained, despite often having extensive economic cooperation with Russia, have complained about insufficient Western respect and support for their interests and values. Nonetheless, Western governments need to look beyond these differences. There needs to be a more active U.S. policy and better EU-U.S. cooperation to help promote their goals in the Caspian Basin region. They must recognize that these trilateral partnerships can enhance Eurasian-European energy collaboration, discourage Iranian and Russian predatory behavior, and stabilize a region primed for problems.

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PART II.

THE ISLAMIC FINANCE LINK

The Development Space(s) of Non-OECD Aid Donors in Southern Eurasia: A Look at the Islamic Development Bank

Bruno De Cordier¹ (2012)

As the Islamic Development Bank (IDB) plans to hold its next annual meeting in Tajikistan's capital, the question arises to what the actual role and position of the bank in southern Eurasia is. The rather discrete development institution has been active in the region for roughly fifteen years. This brief examines two areas. First, whether there is a pattern and interest base in its activities. Secondly, if the bank's presence fits into the fledgling diversification trend in aid donorship in which aid actors other than those from the Organization for Economic Cooperation and Development (OECD, essentially the Western industrialized countries) and the multilateral institutions dominated by them gain a growing space and role, including in southern Eurasia.

The Islamic Development Bank (IDB, officially known in Arabic as *البنك الإسلامي للتنمية*) was established by the finance ministers of the member states of the then Organization of the Islamic Conference (OIC, since renamed the Organization of Islamic Cooperation as of 2011) during the OPEC oil boom in 1973. It started its operations a year and a half later and gradually evolved into what the institution itself calls "a South-South multilateral development financing institution" whose official purpose is to "foster the economic development and social progress of member countries and Muslim communities individually as well as jointly, in accordance with the principles of Shari'a or Islamic law."²

The IDB is a specialized institution under the OIC, operating independently; yet its activities reflect the OIC's development priorities. Member states or

prospective member states of the bank must be either members or adhere to the OIC as well.³ The IDB has 56 diverse shareholding member states that are a mixture of secular and Islamic legal systems and have republican as well as monarchic forms of government. What makes the IDB unique among the ranks of international financial institutions and development banks is that its membership and working principles are in the first place defined on confessional and cultural bases, not by regional geography or by secular, neoliberal development dictates.

Like several other international development banks, the Islamic Development Bank is a group of financial and developmental entities. It is comprised of the Islamic Corporation for Insurance and Export Credit (ICIEC), the Islamic Corporation for Development of Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC) and the Islamic Research and Training Institute (IRTI). The first southern Eurasian countries to join the IDB group were Azerbaijan and Kyrgyzstan, who did so in mid-1992 and late 1993 respectively. Turkmenistan followed in 1994; Kazakhstan in 1995, Tajikistan in 1996 and Uzbekistan in the fall of 2003, seven years after it joined the OIC. In terms of group entity membership, as Table 1 below shows, all southern Eurasian states are members of the IDB and the ICD with only Kazakhstan being member of ICIEC as well. Besides this, one of the IDB's four regional offices in the world is in Kazakhstan. This office was set up in 1997 and groups the six majority Muslim southern Eurasian countries plus, oddly perhaps, Albania.⁴ The IDB also has field representatives in Uzbekistan and Azerbaijan. This representation structure suggests that the region has importance in the IDB's long-term strategy.

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2 "The Islamic Development Bank Group in Brief," Islamic Development Bank, IDB Economic Research and Policy Department, 1433 (2012), 1; and the IDB Portal, 'About IDB' section, www.isdb.org.

3 One of the original criteria for OIC membership, besides adhering to the OIC charter and being a recognized state by the UN, is having a population of at least 50 percent that adheres to the Islamic faith or that at least culturally identifies itself with it. Some of the OIC's members states, however, are minority Muslim countries but with rulers who, at time of accession, had a Muslim background. All southern Eurasian countries mentioned in this brief became OIC members in 1992 with the exception of Kazakhstan and Uzbekistan which did so in the years 1995 and 1996 respectively.

4 There is an understandable rationale behind this, though. The six southern Eurasian states and Albania all experienced some form of a Socialist societal transformation project and were largely cut off from the wider Muslim Ummah for decades. As such, they have if not a common then at least a similar development paradigm from the IDB' point of view.

Table 1. The Southern Eurasian States' IDB Entity Memberships

	IDB	ICIEC	ICD	ITFC
Azerbaijan	☑		☑	
Kazakhstan	☑	☑	☑	
Kyrgyzstan	☑		☑	
Tajikistan	☑		☑	
Turkmenistan	☑		☑	
Uzbekistan	☑		☑	

Source: "The Islamic Development Bank Group in Brief," Islamic Development Bank, IDB Economic Research and Policy Department, 1433 (2012), 17

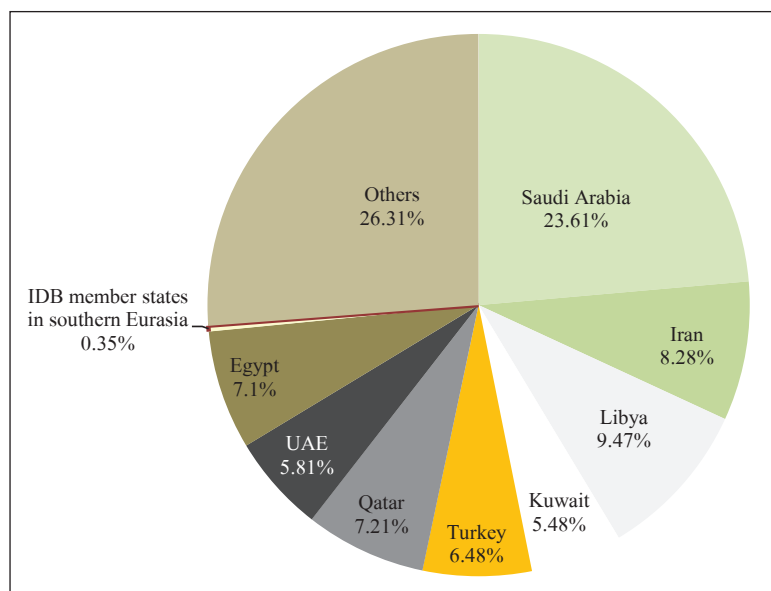
More Benefits than Costs?

Looking at the IDB members' capital shares in the group (as represented in Graph 1), the total of the six southern Eurasian economies' joint capital share is a mere 0.35 percent. This total is slightly more than Iraq's individual share.⁵ The whole capital structure of the group is clearly dominated by Saudi Arabia and the other states of the Gulf Cooperation Council (GCC, a body which groups other high-income Arab Gulf economies like Kuwait, Qatar, the UAE and Oman), which jointly hold more than 40 percent of the capital shares in the IDB group. One of the more

influential factors in motivating most southern Eurasian governments to adhere to the IDB guidelines was the hope of attracting economic investments from the Gulf. As is the case with international development structures, IDB's support was also perceived as a way to continue the funding and maintenance of public infrastructure which was previously taken charge of by the Soviet state. There were, of course, other motives than practical and financial opportunism such as a genuine desire to re-establish ties with the wider Islamic sphere. Such was the case with Azerbaijan immediately after its independence, when the then national-revivalist government called for strengthening ties with the Ummah. Baku's cooperation with both the OIC and the IDB was further boosted with the OIC's explicit condemnation of the Armenian aggression and ethnic cleansing in Nagorno-Karabakh.

Between the start of IDB activities in the region and mid-2012, the value of its operations and investments in southern Eurasia officially amounted to US\$3.34 billion, or 4.28 percent of the group's total approved and implemented projects for the whole period between 1976 and 2011, which is almost equal to southern Eurasia's population share in the wider IDB and OIC sphere. This is not a small portion considering that the bank has only been active in southern Eurasia for only 15 years, compared to over 30 years of activity elsewhere around the world. It also means that the southern Eurasian states,

Graph 1. The Capital Shareholders of the Islamic Development Bank in 2011 and the Position of the Southern Eurasian Member States Therein



Source: Graph created by the author on the bases of data on the IDB portal www.isdb.org (membership section) and Islamic Development Bank, The Islamic Development Bank Group in Brief, IDB Economic Research and Policy Department, 1433 (2012), 4

5 The breakdown per country of these 0.35 percent comes at 0.10 percent for Azerbaijan, 0.11 for Kazakhstan, 0.03 each for Tajikistan, Turkmenistan and Uzbekistan, and 0.05 percent for Kyrgyzstan.

three of which are classified as middle income and two as low income economies, get considerably more out of the IDB than their joint 0.35 percent in capital shares.

In terms of country-level project and investment distribution, the Graph 2 below shows that about one third of IDB's activities and investments are concentrated in Azerbaijan alone. This is, in a way, not surprising since Azerbaijan is the region's oldest IDB member. More importantly, together with Kazakhstan, it is for IDB officially a 'country of primary focus' whereas the other four are of secondary focus. Moreover both Kazakhstan and Azerbaijan are emerging petro- and gas-states where important IDB economies have (or perceive to have) interests and opportunities in the energy sector with all related economic activities associated with it. This also applies to Turkmenistan, despite its different IDB focus ranking. As such, these three countries are well-served compared to other southern Eurasian countries with similar or even considerably larger populations and lower income category.⁶ This is because emerging petro-states do not only have more investment opportunities, but also a stronger capability to repay loans, at least in theory.

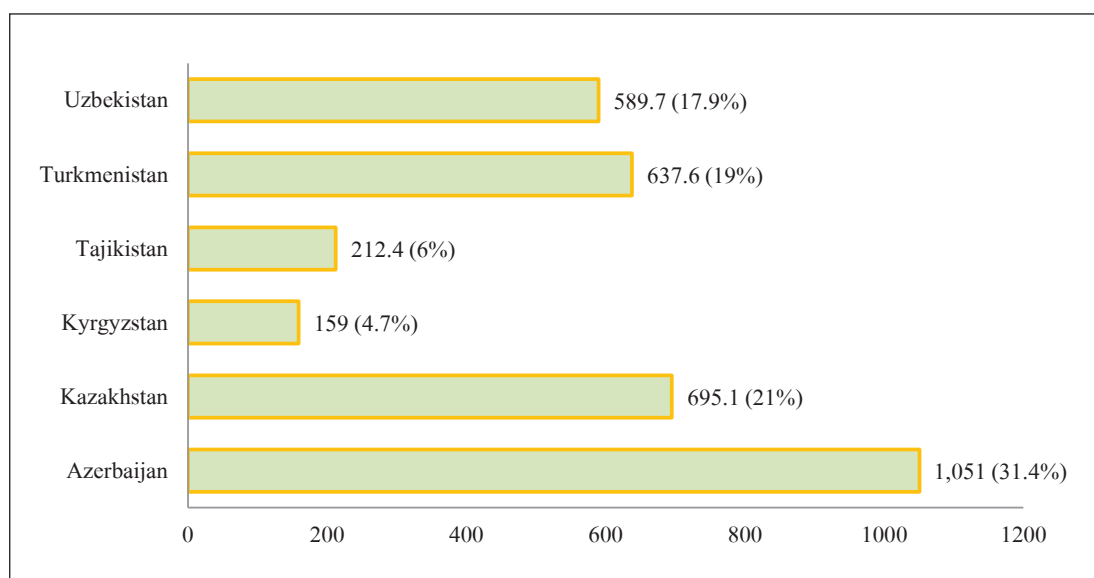
What is the significance of IDB activities compared to other multilateral donor institutions and development banks that operate in southern Eurasia? Table 2 below offers a concise comparison of the activities of a large donor institution in the OECD sphere, the European Bank

for Reconstruction and Development, of the OPEC fund for International Development, dominated by several oil-exporting key members of the IDB, yet also funded by a number of non-Islamic oil exporting countries, and of the IDB group.

While the donors from OECD dominate the landscape in southern Eurasia, the IDB, classified as a medium-sized donor, has a quite significant presence. Its potential to be an effective organization in size and scope is stunted politically by the southern Eurasian regimes' unease towards a perceived Arab-Islamic ideological design of the bank. This perceived bias explains Uzbekistan's late adherence to the bank. Additionally, the IDB's headquarters are based in Saudi Arabia, which is at once the bank's largest individual shareholder and donor. As a result, the bank is often perceived by officials and opinion makers to be a multilateral channel for Saudi aid and influence.

In an effort not to antagonize the Western powers that backed the state's creation and its ruling family since 1932, Saudi Arabia, which controls two of the three sacred places of Islam, has never explicitly claimed the institutional leadership of the Muslim world community. Since the late 1960s and early 1970s, however, Riyadh has been playing a pioneering and leading role in different Islamic intergovernmental forums and institutions (e.g. the OIC and the IDB), that act on behalf or for the sake of the Ummah.⁷ At the same time, southern Eurasia has

Graph 2. Country-Level Distribution of IDB Investment in Southern Eurasia until Mid-2012 (In Million \$ and % of Total)



Source: Table composed by the author on the bases of data from the Kazinform briefing, 'IDB's operations in Central Asia exceed US\$3.3 billion', May 9, 2012, <http://kazworld.info/?p=21328>

⁶ Turkmenistan and Kyrgyzstan, for example, have comparable populations, yet the former received five times more IDB investment than the latter, while development and rehabilitation needs in Kyrgyzstan are stronger. A similar situation exists between Tajikistan and Azerbaijan.

⁷ See Ramashray Upadhyay, "The Saudi monarchy: against the revival of the Caliphate?," South Asia Analysis Group, № 3935, 2010; and Khalid al-Yahya and Nathalie Fustier, "Saudi Arabia as a humanitarian donor: high potential, little institutionalization," *GPPI Research Paper* №14, 2011.

Table 2. The Total Value of the IDB Activities in Southern Eurasia since the Start of Operations as Compared to Some Other Development Banks and Funds (In Million \$)

	European Bank for Reconstruction and Development (EBRD)	Islamic Development Bank (IDB)	OPEC Fund for International Development (OFID)
Azerbaijan	6,600	1,051	44
Kazakhstan	11,000	695.1	-
Kyrgyzstan	886.1	159	23,98
Tajikistan	355.4	212.4	53.75
Turkmenistan	616.4	637.6	15.2
Uzbekistan	1,500	589.7	44.73
Total committed and disbursed since start of in-country operations	20,957.9	3,344.8	181.66

Source: Table composed by the author on the bases of data from the Kazinform briefing, 'IDB's operations in Central Asia exceed US\$3.3 billion' and the respective organizations' portal sites and country briefings

struggled with the classic conflict of tradition against modernity as the secular regimes and elites chaff with the increasing religiosity of part of their citizenry. This increasing Islamic self-identity will inevitably lead the elites to either repress or accommodate these beliefs to maintain their control over society. This translates into a strong distrust by elites to any real or perceived threats by various religious actors to their hold on power. Azerbaijan's, Uzbekistan's and Kazakhstan's policies of active diplomatic, economic and security ties with Israel has also put the region into contrast with key IDB members and the OIC policies.

The Contours of South-South Trade

About half of the 90 implemented or approved IDB projects in southern Eurasia between 1999 and 2011 and over three quarters of investment during that period (see Graph 3) were in transportation, energy and irrigation infrastructure. The second largest category was investments in socio-economic infrastructure with 13 projects in education and health care, three industrial development projects in textile and natural gas, four projects on institutional development and two miscellaneous ones.⁸ This came at a total investment of US\$2.36 billion, or about two-thirds of the total IDB investment in southern Eurasia. The chosen projects are in line with the IDB's priority to boost intra-OIC and South-South trade resulting in improved transportation links between the Gulf, Iran and China through southern Eurasia. The IDB's participation with soft loans and a

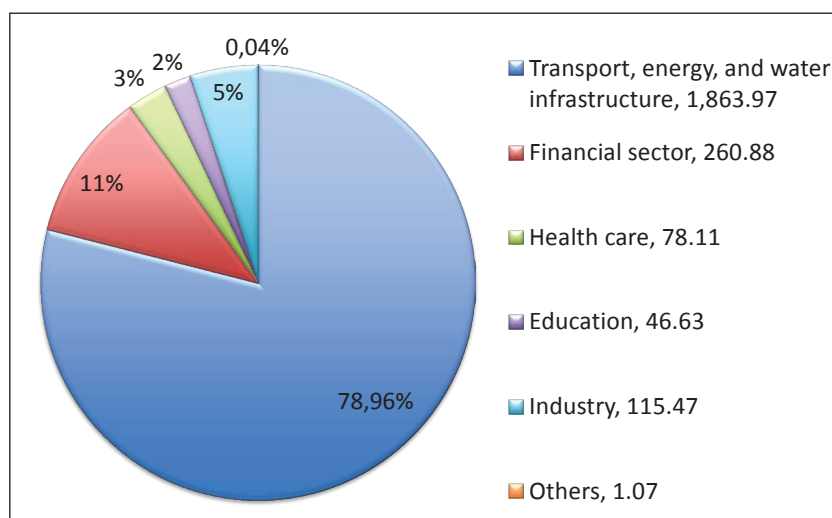
number of Shari'a-compliant financing instruments is also visible in the construction of the Caspian railroad between the Mangistau region in Kazakhstan and Iran, and the construction of a motorway between Murgab and the Kulma pass on the Tajik-Chinese border, to name but two examples.

Likewise, most transport projects funded or co-funded by the IDB group are aimed at the repair of road connections inside the southern Eurasian region itself. This line of activity and investment focus is determined by the nature of intra-IDB trade in the region. As Graph 4 below shows, the respective economies' share of trade with other IDB and OIC member states ranges from an average of 8.7 to 40.1 percent over the period. However, it is important to keep in mind that the bulk of this trade is with either IDB member countries in southern Eurasia or with Turkey. This being said, emerging Eurasian petro-states like Azerbaijan and Kazakhstan are also increasingly trading with the Gulf countries in the energy and banking sectors but this trade segment is not yet large enough to characterize or influence the dominant regional foreign trade patterns.

In addition to these trade relationships, economic and psychological ties between the core and peripheral IDB countries are strengthening. An important aspect is growing labor migration with Egypt, Pakistan and the Gulf. The southern Eurasian economies and societies are characterized by extensive labor migration and a remittance economy too. In 2009, migration involved an average of 12.7 percent of the region's population and remittances brought in an estimated one-tenth to one-

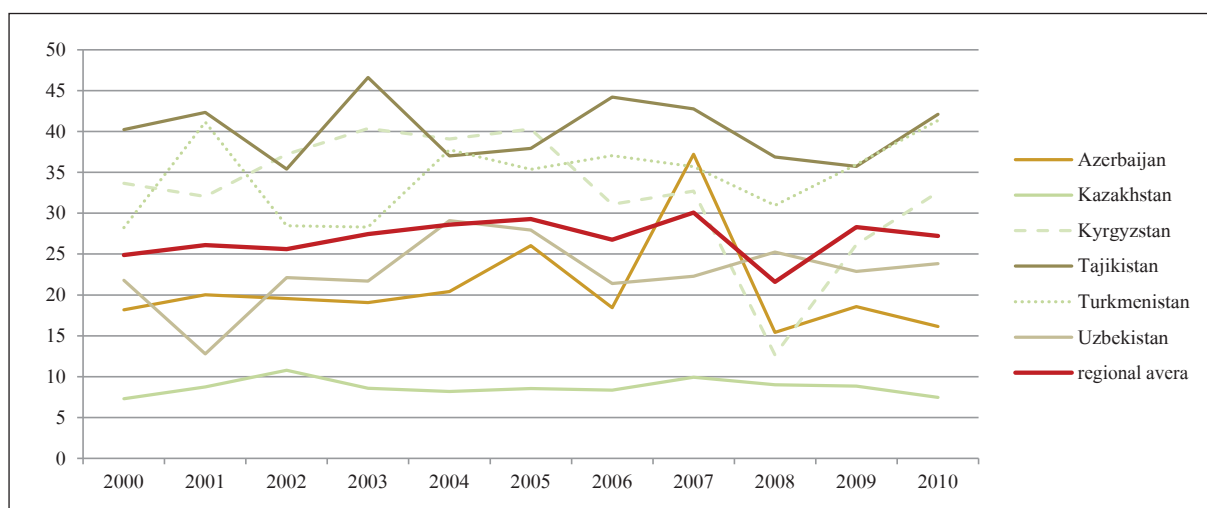
⁸ Detailed project lists can be found in all annual reports of the Islamic Development Bank from the year 1420 to 1432 (1999 to 2011). These were used by the author to make this summary.

Graph 3. Sector-Wide Distribution of IDB Investments in Southern Eurasia for 1999-2011 (In Million \$ and % of Total)



Source: Graphic created by the author on the bases of data provided in the IDB Annual Reports from the year 1420 H. (1999) to 1432 H. (2011), IDB External Relations and Internal Communications Department

Graph 4. The Evolution of the Share of Trade between Southern Eurasia and the IDB Region in 2000-10 in % of Total Foreign Trade



Source: Graph created by the author on the bases of data in the country profiles of the Islamic Centre for the Development of Trade (ICDT) under the Organization of Islamic Cooperation

third of the gross national product of the economies concerned.⁹ The large majority of this economic migration, however, is not oriented towards the Gulf but is headed towards Russia or happens within the southern Eurasian region itself, more specifically between the provinces and urban growth areas or with Kazakhstan.

Along with the integration of the southern Eurasian energy sector into the world economy, labor migration and the formation of a remittance economy created a widespread demand for stable financial services. This

set the framework for the IDB's second emphasis: the development and improvement of the banking sector. Besides the delivery of classical 'technical assistance', the bank and its subsidiaries have been promoting Islamic banking methods since 2003 and increasingly since the onset of the financial crisis in 2008. The latter historical turning point is seen as an opportunity to promote alternatives to banking practices considered to be at the cause of the crisis and expand the market for services and expertise from core IDB economies. This activity

⁹ For a more detailed overview, see Jamshed Qudusov, "Vliyanie mirovogo finansovogo krizisa na trudovyykh migrantov iz Tadjikistana: mnenie migrantov," International Labor Organization Office for Eastern Europe and Central Asia, Moscow, 2009, Table 2, 5.

clearly fits into the priority to enhance intra-OIC trade as well. While transport and energy infrastructure does not have immediate religious implications, activities linked to Islamic banking and the construction and equipment of a laboratory for Halal food certification, for example, do.¹⁰ Such projects are both compatible with the IDB's ideological roots and goals and respond to a growing niche demand in southern Eurasia's majority Muslim societies.

While humanitarian aid is not part of the IDB group's core business, the bank has funded a number of education and health care facilities in response to humanitarian crises. Acting on Islamic solidarity, IDB member states like Saudi Arabia, Kuwait and Iran delivered bilateral humanitarian aid without any IDB mandate during the two largest complex political emergencies in southern Eurasia, Nagorno-Karabakh (1988-94) and the Tajik civil war (1992-97). Both conflicts were less visible in the wider IDB sphere than those of the former Yugoslavia or Darfur today. However, the IDB members states' individual reactions to Nagorno-Karabakh and Tajik civil war laid the foundations for the presence of semi-governmental relief organizations like the Saudi al-Igata, better known as the International Islamic Relief Organization, and the Iranian Imdad, active in particular in Azerbaijan and Tajikistan. In Azerbaijan, the activities of both al-Igata and the Imdad remain downplayed due to official unease with their real and perceived political activities, whereas in Tajikistan, Iran's Imdad remains discreetly and actively involved in a whole range of charitable and social activities.

The Twist of Aid Conditionality?

In terms of modus operandi and impact of the IDB, critics in the region with whom the author spoke stressed the bank's weak monitoring mechanisms and the problems associated with project identification and implementation on the basis of partnerships with government ministries, state agencies and companies controlled by members of local power elites. The local Islamic civil society sector

is still forming, and often not inclined to cooperate with international structures like the IDB that are seen by part of local opinion to be supportive or co-opted by the established regimes. As a result, investment by international structures is sometimes seen by the local population as tacit support of the incumbent regimes. As is the case with other multilateral donor structures, the IDB's emphasis on activity implementation through official structures sets the stage for a permanent negotiation process for the donors' presence in the country. This setup makes it impossible to avoid elite favors. The IDB's move to grant US\$25.67 million in soft loans between 2005 and 2009 for the rehabilitation of the hospital and the irrigation network in the Tajik district of Dangara, for instance, is likely the result of both the infrastructural needs of the area as by its peculiarity of being the power base of the country's president.

Such compromises are a necessity for a structure like the IDB to ensure its viability and to counter the suspicions and perceptions in official circles as well as in wider secular opinion about an underlying ideological agenda. As mentioned earlier, the six GCC economies hold 40 percent of the IDB's capital. If the shares of Libya, Egypt and the minor Arab IDB shareholders are added, the total share of capital from Arab economies amounts to more than 60 percent of the IDB group, while their population represents only 16.8 percent of that of the IDB's and OIC's total. As such, the IDB is primarily a channel for Arab investment in southern Eurasia.¹¹ This does not mean, however, that a number of activities do not come within a clear confessional ideological framework, in first place the promotion of Islamic banking and Halal food production. Contrary to part of the aid from the OECD sphere, IDB aid and investments come with little to no conditionality in terms of democratic reforms. In that respect, for the southern Eurasian regimes, adherence to the IDB is still less a matter of pan-Islamic solidarity than it is a move to diversify sources of aid and investment, not to replace those from the OECD sphere but to weaken the latter's preconditions.

10 At least if one defines faith-related development activities as something wider than building mosques, paying the salaries of clerics and sending copies of the Qu'ran and Islamic literature in the regional languages.

11 The IDB's de facto capacity as a channel for Arab investment becomes clearer when one takes into account the reality that large non-Arab IDB states like Turkey and Iran have a substantive economic presence in southern Eurasia outside of the IDB structures. Turkey and Iran also play a central role in another, regionally defined development bank: the Economic Cooperation Organization Trade and Development Bank (ECOTDB).

Islamic Finance in Central Asia: A Religious or Political Influence?

Sebastien Peyrouse¹ (2016)

As major Western powers have become less generous in international assistance programs since the 2000s, Islamic finance has managed to gain both visibility and respectability in the midst of a full economic and financial crisis.² It offers banking services in accordance with Sharia principles, which ban transactions that have recourse to interest (*ribâ*), to speculation (*gharar*), or to chance (*maysir*). A banking service is termed 'Islamic' when: 1) it proscribes loaning on interest; 2) it makes no investments in sectors considered illegal (gaming, tobacco, alcohol, etc.); and 3) it closely ties in the social responsibility of the investor. The Islamic bank is not conceived as a supplier of funds, but as a partner of the entrepreneur since it applies a principle of sharing risk with its client.³

Islamic finance has two faces which differ greatly from one another. The first is that of the Islamic Development Bank (IDB), joined by Kyrgyzstan in 1993, Turkmenistan in 1994, Kazakhstan in 1995, Tajikistan in 1996, and Uzbekistan in 2003. The IDB reports to the Organization of the Islamic Conference, itself financed primarily by Saudi Arabia and Kuwait. It operates according to modalities similar to those of other financial institutions, such as the World Bank, the European Bank for Reconstruction and Development and the Asian Development Bank: it offers loan mechanisms to its member states and thus expects a return on its investment, but that return must be in accordance with Sharia law. As the IDB's aim at developing communications and commercial links between Muslim countries, most of its projects are linked to the construction of infrastructure (roads, telecommunications, airports and canals) and to social development (construction and equipping of schools and hospitals, agricultural development).

Among its many other services, the IDB includes various specialized corporations. All five Central Asian republics are involved in the Islamic Corporation for the Development of the Private Sector (ICD), whose major function is to invest in the private sector in order to promote small and medium sized enterprises. Kazakhstan is a member of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). The mission of this corporation is to help states and large national companies to improve their export strategies and provide insurance instruments that are in keeping with Sharia law.⁴ At the time of this writing, no Central Asian state has been involved with any of the other IDB entities.

The second face of Islamic finance is embodied by the numerous private Islamic banks (or stems from the sovereign funds of Gulf countries), which offer Islamic services to individuals. These alternative banking and finance systems, which have already been established in Muslim-majority countries, as well as in some European states, are officially well received by Central Asian governments. However, they are in fact regarded with much suspicion: most local governments fear political influence from Islamic states or the spread of a form of Islam they ban, such as Saudi Wahhabism.

Kyrgyzstan, the Originator of Islamic Finance in Central Asia

Kyrgyzstan was the first Central Asian country to pass laws in support of Islamic finance.⁵ Starting in the 1990s, it positioned itself as the main recipient of Islamic finance earmarked for the region, a role which has since been gradually captured by Kazakhstan. In 1997, Shamil Murtazaliyev, a Kyrgyz businessman, bought the local branch of the Russian Credit Bank, which he renamed EcoBank the following year and then EcoIslamicBank shortly thereafter.⁶ However, the country's first Islamic bank was set on edge by the then president, Askar Akayev.

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2 Davinia Hoggarth, "The rise of Islamic finance: post-colonial market-building in Central Asia and Russia," *International Affairs* 92, no. 1 (2016): 115–136.

3 Alexander Wolters, "Islamic Finance in the States of Central Asia: Strategies, Institutions, First Experiences," *PFH Paper*, PFH Private Hochschule Göttingen, no. 01, 2013.

4 Bruno De Cordier, "The Development Space(s) of Non-OECD Aid Donors in Southern Eurasia: A Look at the Islamic Development," *Central Asia Economic Paper*, no. 3, September 2012.

5 "Kyrgyzstan: start na postsovetском prostranstve," *Islamic Finance and Business*, <http://islamic-finance.ru/board/11-1-0-57>.

6 Justin Vela, "Kyrgyzstan: Islamic Banking Offers Alternative to the 'European System,'" *Eurasianet*, June 14, 2011, <http://www.eurasianet.org/node/63675>.

The second president, Kurmanbek Bakiyev, actively supported this bank and the arrival of Islamic finance in Kyrgyzstan between 2005 and 2010.⁷ EcoIslamicBank would continue developing after Bakiyev's overthrow: today, it has 120 offices in the country and cooperates with several International Islamic institutions such as the IDB, the Malaysian Institute of Islamic Banking and Finance, and the Central Bank of Malaysia 'Negara'.⁸

The Muslim Spiritual Board of Kyrgyzstan, along with several governmental and independent institutions, also encouraged Islamic finance. A Committee for the Development of Islamic finance, created in March 2013, supports the engagement of private and public sectors in the Islamic economy. Several microcredit organizations work in accordance with the Murabakha principle and, in February 2014, Kyrgyzstan set up a pilot project to launch Islamic insurances (*takaful*).⁹

Islamic banks offer lower interest rates than traditional banks, and the market has subsequently grown. Despite the official support of the Kyrgyz government and senior civil servants, these officials have kept a cautious discourse over Islamic finances, insisting on the fundamentally secular character of the Kyrgyz financial system.¹⁰ Today, national legislation concerning Islamic finance has limited the field of operations for Islamic banks, which are allowed only four or five possible banking operations, whereas Islamic financing actually offers more than twenty.

Kazakhstan as a Hub for Islamic Finance?

Starting in the 2000s, Kazakhstan sought to take the leadership of Islamic financing in Central Asia¹¹ — and succeeded. It declared its will to become the regional center of Islamic finance,¹² not only for the entirety of Central Asia, but also for the post-Soviet space by the end of the decade. Kazakhstan's goal is threefold: to showcase its modern Islamic identity, in tune with the identity projected by the Emirates; to maintain the state's stranglehold on a sector that arouses political suspicion; and to shore up for itself alternative investments that come without political conditions.

The IDB has been very involved in Kazakhstan. In 1997, it opened a branch in Almaty from which to better approach the local governments. In 2013, the IDB and Kolon, a South Korean company, established a new Islamic leasing company, the Kazakhstan Ijarah Company.¹³ According to a partnership program for 2012-2014, the IDB has invested \$1.2 billion into Kazakhstan's economy.¹⁴ It will also allocate 411 million currency units for the completion of construction of water supply systems in Almaty, Kyzylorda, and North-Kazakhstan regions.¹⁵

For its part, the Kazakh government has multiplied its goodwill gestures toward Islamic finance.¹⁶ In 2009, Kazakh legislation on Islamic banking activity was revised to make it more favorable to Islamic investment funds. In particular, it relaxed the conventional taxation system, which was too burdensome for banking mechanisms that do not operate through interest rates. That same year, the Association for Development of Islamic Finance (ADIF) was founded. Supported by the National Bank of the Republic of Kazakhstan (NBRK), it promotes the Islamic financial sector and cooperation with investors from the Gulf Cooperation Council and South East Asia. ADIF is the first legal entity in Kazakhstan to provide the full range of Islamic finance services, from training to attracting investments in the economy.¹⁷

In 2012, the Development Bank of Kazakhstan partnered with the Central Bank of Malaysia to issue a *sukuk*, i.e. an Islamic bond, for 73 million dollars. This *sukuk*, the first issued by a post-Soviet country, was intended to give rise to further *sukuk* from the main Islamic lenders.¹⁸ That same year, Kazakhstan confirmed a new program to develop the Islamic banking sector by 2020. Specifically, this program would include the establishment of Islamic mechanisms for managing disputes.

The year 2015 was particularly favorable for Islamic finance in Kazakhstan. Facing a new financial crisis, the devaluation of the Kazakh currency, the *tenge*, and the slowdown of foreign investments, the government tried to diversify its sources of financing. In April, Nazarbayev

7 See Wolters, "Islamic Finance in the States of Central Asia"; De Cordier, "The Development Space(s) of Non-OECD Aid Donors in Southern Eurasia"

8 "Kyrgyzstan: start na postsovet'skom prostranstve."

9 Ibid.

10 Jan Stark, *Malaysia and the Developing World: The Asian Tiger on the Cinnamon Road* (New York: Routledge, 2012), 129.

11 Oleg Sodiurov, "Kazakhstan poka ne ochen' uspeshen v razvitii islamskogo finansirovaniya," *Liter*, November 17, 2015, http://liter.kz/ru/articles/show/14121-kazahstan_poka_ne_ochen_uspeshen_v_razvitii_islamskogo_finsirovaniya.

12 "Kazakhstan: spetsifika rynka islamskogo finansirovaniya," *Islamic Finance and Business*, <http://islamic-finance.ru/board/11-1-0-50>.

13 Yerlan A. Baidaulet, "Kazakhstan. Ambitions for Setting up a Regional Hub for Islamic Finance in CIS," in *Islamic Finance Handbook: A Practitioner's guide to the Global Markets*, ed. Andrew Morgan and Andrew Tebbutt (Somerset: Wiley, 2014), 242.

14 For more information see: "IDB investments to Kazakhstan stand at \$500 million," *Tengrinews*, January 16, 2014, <http://en.tengrinews.kz/finance/IDB-investments-to-Kazakhstan-stand-at-500-million-25314/>.

15 Ibid., "IDB to give 411 mln c.u. to three regions of Kazakhstan," *Kazinform*, December 14, 2015, <http://www.inform.kz/eng/article/2850085>.

16 G. N. Khaki and Bilal A. Malik, "Islamic Banking and Finance in Post-Soviet Central Asia with Special Reference to Kazakhstan," *Journal of Islamic Banking and Finance* 1, no. 1 (2013): 11-22.

17 "ADIF to establish Kazakhstan as an Islamic financial hub of Central Asia," *Zawya*, May 20, 2015, https://www.zawya.com/story/ADIF_to_establish_Kazakhstan_as_an_Islamic_financial_hub_of_Central_Asia-ZAWYA20150520062230/; Wolters, "Islamic Finance in the States of Central Asia," 10.

18 Wolters, "Islamic Finance in the States of Central Asia," 11.

passed a new law authorizing Islamic insurance, leasing, and deposits in compliance with Sharia.¹⁹ The following month, the ADIF signed a memorandum of cooperation with the Shariyah Review Bureau (SRB), a bureau which is licensed by the Central Bank of Bahrain and works around the world to develop services in accordance with Sharia law.²⁰ In November, the parliament approved new Islamic finance laws and amendments to launch the nation's first sovereign Islamic bond—possibly in early 2016²¹—to authorize conventional banks to convert to Islamic banks,²² and to open an offshore center in Astana, one of its aims being to attract Islamic finance.²³ Finally, in December, the Central Bank of Kazakhstan made plans to reduce the capital required from Islamic banks by half, decreasing from \$16 to 8 million. This measure was aimed at attracting both local and foreign investors and at diversifying the Islamic partners.²⁴

There are more Islamic actors in Kazakhstan than in any other Central Asian republic. The Bank of the United Arab Emirates, in partnership with the private bank TuranAlem, has offered a range of Islamic banking products since 2007. TuranAlem obtained an Islamic loan of \$520 million from Arab, British and Malaysian investors. In 2010, the Al Hilal Bank, based in Abu Dhabi and owned by the Emirate government, opened a branch in Almaty, and in December 2015, it signed an agreement with the Development Bank of Kazakhstan.²⁵

Several other financing and investment structures were created. In 2009, the company Akyl-Kenes Consulting started working in the sectors of Islamic finance and lean manufacturing.²⁶ Another company, Fattah Finance, proposes financial services in compliance with Sharia. In 2010, it signed an agreement with the Malaysian financial group AmanahRaya to create an Islamic bank.²⁷ In 2015, Zaman Bank (which had converted from a commercial to an Islamic bank two years earlier), started granting interest free credits under the umbrella of the National Bank of

Kazakhstan.²⁸ Takaful, a society of Islamic insurance, was the first to propose Islamic insurance services, popularizing both this type of insurance and other forms of Islamic finance in Kazakhstan.²⁹

Kazakhstan also supported the financial services with a social agenda. The Hajj Fund, created in June 2011, aims to help believers save funds to make the hajj.³⁰ That same year, the Muslim Spiritual Board of Kazakhstan launched Zakat, a fund for donation in compliance with Waqf principles and sharing with impoverished persons.³¹

Thanks to several legislative revisions and the multiplicity of actors involved, Kazakhstan has indeed become a regional hub for Islamic finance. However, it gained this access by default: Islamic finances still make up only one percent of the total banking assets in the country,³² a very low volume compared to many other Muslim countries in the world, but higher than the other post-Soviet states—particularly Tajikistan, Uzbekistan and Turkmenistan.

Tajikistan, Uzbekistan, and Turkmenistan: Between the Search for Financing and the Fear of a Non-Controlled Islam

In Tajikistan, the dearth of investment opportunities and the weakness of the legal framework have not allowed Islamic financing mechanisms to develop significantly. The country is mired by a lack of corporate governance, a poorly regulated banking system, shallow capital markets, and limited integration into the global financial system. IDB loans to the Tajik authorities are focused largely on programs for technical aid with the goal of reforming the sectors of health, transport, education, energy, and irrigation.

President Emomali Rakhmon, however, saw the IDB as an opportunity to finance some of its otherwise

19 "Kazakhstan: spetsifika rynka islamskogo finansirovaniya."

20 "ADIF to establish Kazakhstan as an Islamic financial hub of Central Asia."

21 "Kazakhstan Set For Debut Sovereign Sukuk In Early 2016," *Halaltimes*, November 16, 2015, <http://www.halaltimes.com/kazakhstan-set-for-debut-sovereign-sukuk-in-early-2016/>.

22 "Kazakhstan Studies Lower Capital Requirements for Islamic Banks," *Reuters*, December 1, 2015, <http://www.reuters.com/article/islam-financing-kazakhstan-idUSL8N13Q0AA20151201>.

23 "Kazakhstan Set For Debut Sovereign Sukuk In Early 2016."

24 "Kazakhstan Studies Lower Capital Requirements for Islamic Banks."

25 Rasul Musaev and Yulduz Magomedova, "Opyt Respubliki Kazakhstan v razvitii islamskikh finansov," *Rossiyskiy Sovet po Islamskim finansam*, March 14, 2015, <http://rifc.su/?p=803>; Oleg Sodiurov, "Kazakhstan poka ne ochen' uspeshen v razvitii islamskogo finansirovaniya."

26 "Kazakhstan: spetsifika rynka islamskogo finansirovaniya."

27 *Ibid.*

28 Sodiurov, "Kazakhstan poka ne ochen' uspeshen v razvitii islamskogo finansirovaniya"; Musaev and Magomedova, "Opyt Respubliki Kazakhstan v razvitii islamskikh finansov."

29 "Kazakhstan: spetsifika rynka islamskogo finansirovaniya."

30 Sodiurov, "Kazakhstan poka ne ochen' uspeshen v razvitii islamskogo finansirovaniya."

31 "Islamic Investment Funds and Non-Bank Institutions," <http://invest.e-vko.kz/en/content/gde-vzyat-dengi-dlya-razvitiya-biznesa/islamskie-investiczionnyie-fondyi-i-nebankovskie-uchrezhdeniya.html>.

32 "Kazakhstan studies lower capital requirements for Islamic banks. See also: Sodiurov, "Kazakhstan poka ne ochen' uspeshen v razvitii islamskogo finansirovaniya."

unaffordable development projects. According to an agreement signed in October 2015, the IDB will provide \$70 million to Dushanbe to fund the electricity project of CASA-1000.³³ Moreover, since 2011, the lack of international financing has compelled Emomali Rakhmon's government to further open up this sector by allowing the poorest sections of the population to have access to basic financial services, such as microcredit, in a bid to develop private entrepreneurship and the agricultural sector. In August 2014, Tajikistan passed a law authorizing the introduction of Islamic finance principles.³⁴ The Development Bank of Tajikistan signed an agreement with the IDB to be converted into an Islamic Bank, becoming the first Islamic bank in the country.³⁵ In January 2016, the International Islamic Trade Finance Cooperation (ITFC), a member of the Islamic Development Bank Group, signed an MoU with Agroinvestbank, a private commercial bank, to enhance trade financing cooperation.³⁶

In Uzbekistan, the regime of Islam Karimov takes a very political view of Islamic finance, which it suspects of promoting Wahhabi Islam from the Gulf countries. Uzbekistan was the last country to join the IDB. The latter mainly finances aid to the small private sector, including the modernization of irrigation networks and construction of electricity lines. Despite the political authorities' prudence, Uzbekistan is currently the Central Asian state in which the IDB has invested the highest amount – almost \$1.5 billion. The ICD granted a \$42 million credit to three Uzbek banks (the private bank, Ipoteka Bank, and the state banks, Asaka Bank and Uzpromstroibank) to support some modernization projects in the agriculture and transport sectors. In June 2014, the ICD signed an MoU with two commercial banks, Ipak Yuli Bank and Asia Alliance Bank, to deepen support of the Small Medium Enterprises and the development of Uzbekistan's private sector.³⁷ However, little progress has been made due to the lack of support from the authorities.

Little has been done in Turkmenistan in terms of Islamic finance either, and the banking sector in general is rather underdeveloped. In November 2011, the Islamic Corporation for the Development of the Private Sector

signed an MoU with Ashgabat in order to establish a joint investment holding aimed at small and medium businesses in the sectors of agriculture, logistics and real estate. However, at the time of writing the institution is not operational and the IDB limits itself in offering loans for road and railway construction and the renovation of medical facilities.

Table 1. Total IDB Group Project Financing and Technical Assistance Invested in Central Asian Countries from Their Accession to the End of 2014 (In Million US Dollars)

Kazakhstan	545
Kyrgyzstan	215
Uzbekistan	1,494
Tajikistan	270
Turkmenistan	587
Central Asia Total	3,112
World Total	52,686

Source: Islamic Development Bank, 2014, *Key Socio-Economic Statistics in IDB Member Countries, Statistical Monograph No. 34*; Islamic Development Bank, 2015, *Key Socio-Economic Statistics in IDB Member Countries, Statistical Monograph No. 35*

Conclusions

Islamic finance and services in Central Asia remain very limited compared to their use in many other Muslim nations,³⁸ and have met with a number of obstacles in the region. Before the 2008 economic crisis, Kazakhstan had no great need to borrow from non-Western institutions, while the other Central Asian states were poor or unreceptive, and their banking systems rather underdeveloped. Moreover, the local taxation system—high taxes when loans change hands—constitutes an essential obstacle to Islamic financing. Last but not least, Central Asian economies are shaped by endemic corrupt practices, and tax evasion has become a systemic feature. Full transparency requested by Islamic finance—demands to disclose all parties' interests and shares of assets in an economic endeavor—as well as the exclusion of any kind

33 "Tajikistan and the IDB signed an agreement for a 'Regional Project power transmission of the CASA 1000,'" *Khovar.tj*, October 13, 2015, <http://www.khovar.tj/eng/content/tajikistan-and-idb-signed-agreement-%E2%80%9Cregional-project-power-transmission-casa-1000>; "Islam Development Bank provides \$70 million to Tajikistan for CASA 1000 Project," *Asia Plus*, October 12, 2015, <http://news.tj/en/news/islamic-development-bank-provides-70-million-tajikistan-casa-1000-project>.

34 "Law on Islamic Banking in Tajikistan comes Into Force," *Asia Plus*, August 7, 2014, <http://news.tj/en/news/law-islamic-banking-tajikistan-comes-force>.

35 "Bonki rushdi Todzhikiston stanet pervym islamskim bankom v Tadzhiikistane," *Dialog.tj*, May 25, 2015, <http://www.brt.tj/pressroom/news/393/>; "Tadzhikskiy bank gotov prevratit'sya v islamskiy," *Dialog.tj*, May 20, 2015, <http://www.dialog.tj/news/tadzhikskij-bank-gotov-prevratitsya-v-islamskiy>.

36 "ITFC signs trade finance framework with Tajikistan," *Trade Finance*, January 6, 2016, <https://tradefinanceanalytics.com/articles/3492430/itfc-signs-trade-finance-framework-with-tajikistan>.

37 "IDB, ICD Sign String of Agreements," *International Islamic News Agency*, June 30, 2014, http://www.iinnews.com/page/public/news_details.aspx?id=36698#.

38 Wolters, "Islamic Finance in the States of Central Asia," 18-19.

of speculation, are all conditions for Islamic business that do not fully align with the principles of the shadow-based economies of Central Asia.³⁹

Islamic finance supporters complain about the feebleness of Islamic banks and investment funds, which focus on large-scale infrastructure projects that have backing from local governments and leave aside individuals. Its detractors are mainly concerned about its hidden religious activities. These fears are not specific to Central Asia; they are fairly similar to those held, for instance, in France regarding massive investments from Qatar. In Central Asia, Sharia law is scarcely known and broadly associated with Islamic radicalism. The position of the Central Asian states is thus paradoxical, since they both want to attract additional investments that do not come with conditions in terms of politics or reforms, but fear radical influences.

Whereas Saudi Arabia uses the IDB as a vector of soft power over the entirety of the Muslim world, the situation is somewhat different in Central Asia to the extent that the states of the region have thus far refused most investments with a religious character and only ratified those focused on infrastructure or agriculture. However, Central Asian governments tend indeed to confound the direct influence of Saudi Arabia, which seeks to finance local actors with a radical view of Islam, with that exerted by an internal

financial institution such as the IDB, not so different in its functioning from the World Bank or the Asian Development Bank.

The influence of private banks and investment funds from the Gulf is probably less controllable. The Gulf countries often link their investments with some cultural measures (opening up cultural centers, financing mosques, madrasas, or charity associations), which can potentially contribute to the spread of a more radical version of Islam. As for the private banks, which focus on providing services to individuals or to businesses, they do not propagate radical Islam, though some of them do support a stricter reading of Islam. But these banks also consider Islam as a commercial niche among many others, and want to attract diversified clients for whom Sharia law is not necessarily an element of choice, but just a viable solution for their business.

The suspicion of Central Asian governments is thus only partly justified. What is really at stake in the region is not the ability of Saudi Arabia or the Gulf countries to foster radical Islam via Islamic banking services. It is instead the growing number of Central Asian citizens who perceive radical Islam as a solution to their problems. Islamic finance will indeed be able to take root in the region only if local actors seize upon it and transform it into an ideological tool.

39 Feisal Khan, "How 'Islamic' is Islamic Banking?" *Journal of Economic Behavior & Organization*, 76 (2010): 805–820.

The Politics of Islamic Finance in Central Asia and South Caucasus

Fuad Aliyev¹ (2012)

Started as a small grassroots initiative in Egypt about forty years ago Islamic finance has been growing in the number of countries, proposed Islamic banking services, and areas of finance and assets ever since. In late 2011 the global market for this industry was worth around \$1.3 trillion, with assets having grown by 150% since 2006.² Islamic finance represents a system of financial intermediation that avoids interest-based transactions in accordance with Islamic law. The major principle is the avoidance of interest (*riba*), the avoidance of preventable contract uncertainty (*gharar*) and ambiguity (*meysir*), not funding immoral activities (*haram*), as well as ensuring social justice and transparency. Thus an Islamic financial institution is a financial intermediary whose objectives and operations, principles and practices conform to the principles of Islamic Law.³ A major feature of Islamic finance is profit and loss sharing (PLS) transactions. However, in reality many other modes like leasing, and sale in installments are also used.

Seemingly a commercial activity at first sight, Islamic finance has always been partially political. There is indeed a complex history between Islamic financial institutions and the political regimes or authorities in the Muslim states where it was implemented. It has never been seen by respective governments as a purely financial institution, and has thus been closely intertwined with politics.

The Islamic Revolution in Iran and the *islamification* of Sudan's polity immediately resulted in the full and total *islamification* of their financial-banking systems. On the other hand, secularized and even non-secularized Muslim countries have been cautious and sometimes hostile to Islamic finance for a long time. Thus, all other things being equal, introduction and development of Islamic finance has depended heavily on the politics in the specific countries. The Central Asia – South Caucasus region is a good example of this rule.⁴

This paper explores the political aspects related to the ongoing attempts to introduce Islamic finance in the predominantly Muslim, but secular countries of the Central Asia – South Caucasus region, namely Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

According to Clement M. Henry, “Islamic banks would seem to have better opportunities to compete and to expand their shares of market in relatively open, liberal economies than in closed ones.”⁵ The trend of last decades towards more openness and globalization has indeed created a fertile soil for growth and expansion of this industry. For example, the liberalization of the national economy helped Islamic economic institutions in Turkey become an important sector of the economy.⁶ Liberalization of politics in Turkey and to some extent in a few Middle Eastern countries has also immediately helped Islamic activists get their momentum.

Although the majority of the population in Central Asia and in Azerbaijan is Muslim, Islamic finance has been almost non-existent there, and there have been problems in incorporating interest-free banking operations into the countries current legislative systems. However, the current state of things is very different throughout the region with an almost fully-fledged system in place in Kazakhstan and no signs of any genuine Islamic finance on the horizon in Turkmenistan and Uzbekistan.

Although Azerbaijan was the quickest among the post-Soviet Muslim states to join the Islamic Development Bank (IDB) in July 1992 and has the largest amount of its funding (more than \$1.2 million), it has not become a regional leader in introducing Islamic finance. Most of this funding was used to finance huge infrastructural projects in form of concessional loans and grants. In fact, the legislation in Azerbaijan does not recognize Islamic finance, Islamic banking or their modes as legally acceptable. Post-Soviet Azerbaijan has on the contrary a history of “Guerilla Islamic finance,” i.e. banking activities “hidden” under the forms of conventional banking.⁷

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2 “Islamic Finance,” *The Economist*, April 10, 2012, <http://www.economist.com/blogs/graphicdetail/2012/04/focus-2>.

3 Ahmad Raquib, *Principle and Practice of Islamic Banking* (Dakha: Panam Press Ltd., 2007), 70.

4 Clement M. Henry, “Financial Performance of Islamic versus Conventional Banks,” in *The Politics of Islamic Finance*, ed. Clement Henry and Rodney Wilson (Edinburgh University Press, 2004), 106.

5 Ibid.

6 Ibid.

7 Fuad Aliyev, “Guerilla Islamic Finance: The Azerbaijani Way,” *Azerbaijan in the world* 1, no. 13 (August 1, 2008).

Following a different route Kazakhstan has the most welcoming policies towards Islamic finance in the region. After joining the IDB in November 1995, it started active cooperation with this institution. It was the first country of the region to welcome the equity fund International Company for Investment in Central Asia in 1998. In 2000-1 an IDB line of financing in accordance with the Sharia was opened to three Kazakh banks through installment sale/leasing and import trade financing operations. The law "On introducing amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of organization and activities of Islamic banks and Islamic finance organizations" was approved in February 2009. It officially allowed banks to conduct operations in accordance with the principles of Islamic finance. Furthermore, related provisions of the Civil Code, laws "On Banks and Banking Activity," "On Investment Funds" and "On the securities market" were amended accordingly.

At the moment, only the Islamic bank Al-Hilal Bank operates after receiving a license in 2009. According to specialists, within a few years, Sharia-compliant financing will be more than five percent of Kazakhstan's total banking services market.⁸ It is worth mentioning that President Nazarbayev has encouraged and even initiated the process of introducing Islamic finance. He personally persuaded Al-Hilal to come to the country during his visit to the United Arab Emirates.⁹ The overall goal of the Nazarbayev government is to turn Kazakhstan into a regional hub linking Central Asia and the Commonwealth of Independent States (CIS) to the Islamic world by 2020.¹⁰

In 2006, a Memorandum of Understanding was signed between the IDB, the Kyrgyz Republic, and OJSV EcoIslamicBank concerning the introduction of Islamic banking and finance. The rapid introduction of Islamic finance in Kyrgyzstan can be explained by the personal support of the president at the time, Kurmanbek Bakiyev, and his good personal relations with the Chairman of EcoBank Shamil Murtazaliyev, a Kyrgyz Islamic finance enthusiast. The second "revolution" in April 2010 that resulted in the collapse of Bakiyev's regime has not stopped this process. The post-Bakiyev authorities continued his policy and cooperation with the IDB, under the supervision of now Prime Minister Omurbek Babanov.¹¹

In November 2011, Tajikistan and the IDB signed a Technical Assistance agreement on Islamic banking.¹² It is aimed to develop legal, regulatory, and supervisory

frameworks required for this banking sector. Through these measures Tajikistan is becoming the third country in the region to start the legalization of Islamic banking activities. According to expert evaluations, the draft legislation is underway and expected to be adopted by the end of 2012. There is currently strong support from the country's leadership, thereby explaining this policy acceleration in favor of Islamic finance. Indeed, according to some sources, one of the largest banks in the country has agreed to be supported by the IDB but on the condition of complying with Islamic regulation. One would expect this bank to be first in line for "Islamification" once the legislation is in place, and to be ready to operate in 2013.

Little has been going on in Turkmenistan around Islamic finance. In November 2011, the IDB Islamic Corporation for Development of the Private Sector signed a Memorandum of Understanding with Ashgabat that established an investment holding company similar to the ones opened in Kazakhstan and Azerbaijan.¹³ It will focus on the development of the private sector, especially small- and medium-size enterprises, the financial sector, agriculture, logistics, the construction of affordable housing, as well as the services and manufacturing industries.¹⁴ However, currently this institution is not operational and it is unclear when it will become so.

Unlike the other countries of the region, Uzbekistan has been extremely cautious in simply joining the Islamic Development Bank. While the neighboring countries were trying to utilize the opportunities coming from IDB funding for almost a decade, Tashkent was mainly observing before finally joining in 2003. It has had an IDB line of financing in accordance with Sharia since 2005-6. Two institutions, Ipak Yuli Bank and Uzbek Leasing International, were selected to carry these lines. In general, it is mainly the leasing operations that are used due to a relatively well-developed leasing sector in the country.

Some informal sources say there was an initiative coming from a local IDB representative to introduce Islamic finance in 2007. However, little progress was achieved due to the lack of high-level support for this idea, mainly because of perceived threats of potential terrorist financing and the additional workload needed to amend the existing legislation. Having the best potential market for Islamic financial institutions in the region given a large religious population, especially in the Ferghana Valley, Uzbekistan's leadership paid more attention to the

8 "Islamic Finance and Bank arrives in Kazakhstan," *Global Islamic Finance*, October 2, 2009, <http://www.global-islamic-finance.com/2009/10/kazakhstan-islamic-finance-banking.html>.

9 Clare Nuttal, "Support from the top for Islamic finance market," in *Investing in Kazakhstan 2011* (Washington, DC: New Desk Media, 2011), 131-133.

10 Ibid.

11 Ibid.

12 "IDB, Tajikistan sign agreement on Islamic Banking," *Trend News Agency*, November 17, 2011, <http://en.trend.az/regions/casia/tajikistan/1958198.html>.

13 "IDB establishes an investment holding company in Turkmenistan," *Fineko News Agency*, no date, abc.az/eng/news/49129.html.

14 Ibid.

other side of the story – the potential for helping Islamist opposition grow and terrorism financing.

As a result Tashkent's decision was to postpone the introduction of Islamic finance in the country. The Uzbek government's policies towards anything related to Islam have been always suspicious, and Islamic finance is no exception. Uzbekistan is thus the only country in the region that does not actively participate in the activities of the Organization of Islamic Cooperation (OCI) and the IDB.¹⁵

Concluding Remarks

The main clientele of Islamic banking services are religious Muslims who want to have financial services in accordance with Sharia, and one could expect them to be loyal clients. Thus potentially Uzbekistan and the Ferghana Valley as a whole could be a good market for these services, while in Kazakhstan the clients are mainly corporations as well as the government itself.

Having glanced at the way Islamic finance initiatives have been treated in various Central Asian republics and

Azerbaijan allows one to argue that the policies towards this financial industry have taken their lead from the individual countries policies towards Islamic activism in general. Market demands and potential do not seem to have been taken into consideration at all. Thus Islamic finance is viewed not as a commercial activity, but as a part of Islamic activism. The more restrictive policies towards this kind of activism are, the less Islamic finance there will be.

Such policies emanate from the perceived “threats” associated with Islamic finance by policy makers. They can be defined as a “hidden Islamophobia” – a phobia based on the alleged threat represented by any kind of Islamic activism to secular nationalism and current regimes. Such attitudes are exemplified by the statement a public official in Azerbaijan made while meeting with a delegation of Islamic bankers several years ago: “Islamic finance is alien to the Azerbaijani mentality since we are a secular nation.”¹⁶ However, the trend towards differentiation between the political and financial nature of Islamic finance, exemplified by Kazakhstan and Kyrgyzstan, to be followed soon by Tajikistan, appear to be increasing.

¹⁵ Ernest Sultanov, “Mezhdunarodno-pravovye aspekty deyatelnosti Organizatsii Islamskoy Konferentsii” (PhD diss, Moscow, 2005).

¹⁶ Former IDB officer, personal interview with the author, March, 2012.

PART III. THE WIDER REGION'S IMPACT: TURKEY, IRAN, PAKISTAN, GULF COUNTRIES

The AKP/Gülen Crisis in Turkey: Consequences for Central Asia and the Caucasus

Bayram Balci¹ (2014)

The AKP government, in power since 2002, has long benefited from the unconditional and valuable support of Fethullah Gülen's sphere of influence, which stretches across many domains. This influence is most notable in domestic policy, where his media network has supported the government's efforts to democratize the state and its institutions, contain the political role of the military, and advance Turkey's EU candidacy. Their *cordial entente* was equally, if not more, effective in foreign policy. This is particularly the case in Central Asia and South Caucasus, where the AKP and Gülen have spoken with one voice to establish the cultural, economic, and political influence of Turkey. This cooperation was all the more harmonious due to the fact that from a sociological point of view, the AKP and Gülen share the same social base. However, on December 17, 2013, after having traversed several crises both in foreign and domestic policy, this alliance imploded.² The divorce between the two most influential politico-religious leaders in Turkey affects the entire Turkish political system, as well as Ankara's foreign policy, insofar as Gülen's sphere of influence alone incarnates an essential part of Turkish soft power. This crisis concerns Central Asia and the Caucasus, since it occupies an important place in Ankara's policies and the actions of Gülen's network, whose oldest and strongest presence outside of Anatolian borders is located there. The crisis of confidence between Gülen and the AKP raises several questions regarding Turkey's relationship with Central Asia and the Caucasus, where a number of Gülenist schools have developed.

Several questions emerge: In what way does the crisis affect the post-Soviet sphere and change Turkish foreign policy in the region? More fundamentally, how will the societies and regimes of Central Asia and the Caucasus regard the schools of Fethullah Gülen and the intentions, political or otherwise, of the cohorts of graduates who have joined the ranks of local and national elites? Answering these questions will involve a brief summary of Turkish policy in the former Soviet space and the place that Gülen's network occupies in this policy.

Gülen's Network at the Service of Turkey's Soft Power

In order to better understand the importance of Gülen's network in Central Asia, one must recall that Turkey was one of the countries most interested in this new geopolitical space inhabited primarily by populations whose language, culture, and religion were close to those of Turkey.³ First to recognize their independence, Turkey began an ambitious and unrealistic policy—ultimate goal of which was to form a sort of Turkic bloc capable of weighing in on the international scene.⁴ However, after a first phase of relative success, realism prevailed; Ankara realized that it did not have the means to achieve such ambitions. In addition, it soon became clear that the post-Soviet republics had little desire to see Turkey become a new big brother that would limit their newly acquired independence. Turkish policy in Central Asia thus rapidly became more the work of private actors who proved themselves to be more effective than the state in their strategies of adapting to the new realities. Among these actors, the most influential and multidimensional was the Gülenist network, which was the *de facto* spearhead of Turkey's policy in these countries.

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 - 2 Piotre Zelowski, "Divorce Istanbul-Style, Why Turkey's Nasty Gulen-Erdogan Fight is Making for some Strange Bedfellows," *Foreign Policy*, January 14, 2014, http://www.foreignpolicy.com/articles/2014/01/14/divorce_istanbul_style_erdogan_turkey_gulen_movement.
 - 3 Thomas Weeler, "Turkey's Role and Interest in Central Asia," *Saferworld Briefing*, October 2013, <http://www.saferworld.org.uk/downloads/pubdocs/turkeys-role-and-interests-in-central-asia.pdf>.
 - 4 Carlo Frappi, "Central Asia's Place in Turkey's Foreign Policy," *ISPI* No. 225, December 2013, http://www.ispionline.it/sites/default/files/publicazioni/analysis_225_2013.pdf.
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Describing Fethullah Gülen's network as a 'movement' hardly suffices to describe an organization that, although visible, has no clear boundaries and whose identity is of variable geometry. At first it might have been described as a power nebula. Strategic secrecy and opacity⁵ were privileged in order to remain elusive, as much in its identity and activities as in its intentions. Its own members define their movement as *hizmet*, which is to say a community organized around 'service' rendered to individuals, the community, and all humanity through education and the dialogue between religions and cultures.⁶ In Central Asia and the Caucasus, Gülen's network has established itself in various sectors, especially in education by developing and running schools and centers of higher learning operated by expatriate Anatolian Turks who find a moral and ethical justification for their economic, and cultural action in the teachings of Gülen.

The first Gülenist establishments appeared in 1992. In general businessmen, education professionals, and journalists who shared Gülen's ideas to differing degrees moved into these countries to make connections and rapidly create schools and commercial operations. The context of the time was favorable. The collapsing national educational systems lacked the means to meet the demands of openness and globalization. Diplomatic relations with Turkey were excellent due to the prestige and natural sympathy derived from the common heritage of history, language, religion, and Turkic culture. For these reasons, Gülen's network encountered very few obstacles in its massive implantation. Soon dozens of schools opened to train new elites who were more internationally oriented.⁷ They were partially financed by a network of Turkish small businesses whose mission was to fill out and develop the social and economic landscapes in these new lands.

The zenith of good relations between these schools and the post-Soviet countries occurred in 1999. Kazakhstan boasted thirty schools and a university; Kyrgyzstan, fifteen schools and a university; Uzbekistan, sixteen high schools and an international school, the Ulugbek International School; Tajikistan, six schools; and Turkmenistan, ten schools and a university. In the South Caucasus, there were five schools and one university in Georgia as well as fifteen schools, a university, and nearly twenty preparatory schools in Azerbaijan. These educational establishments were supplemented with the circulation and influence of

the Gülenist daily newspaper, *Zaman*, which appeared in the local languages in all of these countries except Georgia and Tajikistan.⁸ Gülenist schools also flourished in the Russian Federation at the beginning of the 1990s.

Two decades have since passed. These schools have trained the first post-Soviet generation and most of them continue to operate. They still have the same status, that of private schools working under the authority of the Minister of Education, in each country. They respect, to the letter, national programs in conformity with local norms, notably in terms of secularism.

However, in two countries, these schools have had to close entirely, or maintain only a symbolic presence. In Uzbekistan, the local authorities decided to close them in 2000, after having closed some of them as early as 1995. The reasons for their prohibition are diverse and must be situated in the general context of the deterioration of relations between Turkey and Uzbekistan. Relations suffered when Turkey offered asylum to several members of the Uzbek political opposition suspected of engaging in subversive activities with Ankara's support.⁹ As for Turkmenistan, the local authorities greatly appreciated the schools, not only under Saparmurat Niyazov, but also during the early years of his successor Gurbanguly Berdimuhamedov.¹⁰ However, in 2010-11, the government decided to absorb most of the Turkish schools into the national system and maintain just two independent establishments, the Turgut Özal School in Ashgabat and the International Turkmen Turkish University. The decision and its application are part of a framework negotiated between the two parties. It is in no way the result of a crisis comparable to the one that accompanied the closing of the Turkish schools in Uzbekistan.

In every country in which they are established, the Gülen schools dispense a secular education in conformity with host country authorities, which watch over them closely. The difference between these schools and their public equivalents resides in the fact that the Turkish schools, rarely identified as Gülenist, offer a modern, multilingual education that responds to the need for openness and the training of new elites. English is a priority, but local languages, Russian, and Turkish, also figure in the coursework. Scientific disciplines are privileged and the ultimate goal is to give students the best chances of entering the universities in Turkey and in the West. The

5 Joshua Hendrick, *Gülen, The Ambiguous Politics of Market Islam in Turkey and the World* (New York: New York University Press, 2013).

6 Fethullah Gülen, "What is the Hizmet Movement?," <http://www.fethullah-gulen.org/op-ed/what-is-gulen-movement.html>.

7 Bayram Balci, "Fethullah Gülen's Missionary Schools in Central Asia and their Role in the Spreading of Turkism and Islam," *Religion, State & Society* 31, no. 2 (2003): 151-177.

8 On Gülen school figures in the world, see <http://turkishinvitations.weebly.com/every-continent-but-antarctica-news-articles--links.html>.

9 Nadir Devlet, "Turkey and Uzbekistan. A Failing Strategic Partnership," *GMF*, January 5, 2012, http://www.gmfus.org/wpcontent/blogs.dir/1/files/ml/devlit_uzbekistan_jan12.pdf.

10 Victoria Clement, "Central Asia's Hizmet Schools," in *The Muslim World and Politics in Transition*, ed. Greg Barton, Paul Weller, and Ihsan Yilmaz (London, Bloomsbury Publishing, 2013), 154-167.

admission selection process is difficult and the schools recruit from the privileged layers of host society, including political elite's children. To reinforce their status, the schools rigorously respect the legal framework of the host countries and participate in the legitimization process of the regimes in power by supporting government policies and inculcating obedience and loyalty in students.

Contrary to a common preconception, these schools are not disguised madrasas dispensing an Islamic education or extolling the ideas of Gülen. They do not offer Islamic classes; however, a certain religious activism was practiced outside of classes during the first years they were in place. The risks this activism posed to the larger-scale activities of the movement led to the abandonment of any extra-curricular religious education in order to avoid criticism and accusations of Islamic proselytism.

On the other hand, without actively or visibly proselytizing, the Gülen movement transmits a certain Islamic and universalist ethic to its pupils. The value of work, respect and tolerance of the other, cleanliness as well as mental and physical hygiene, politeness, courtesy and good manners or the *edep* of the societies of the Muslim Middle East are applied, lived, and incarnated every day by every Gülenist teacher—and spread to the students through identification and admiration. They follow the model of Christian missionary schools, implanted in Turkey at the end of the Ottoman era, which trained a large number of Turkish republican elites and adopted a more secular model in order to survive in the context of Atatürk's revolution. The Gülen schools are strongly inspired by the European Christian model, not to Islamize but to establish a certain Turkish soft power that benefits, indirectly and over the long term, from the spread of an Islamic ethics without proselytism.

Gülen's approach seduced and earned the support of Turkish diplomatic circles, even at a time, the 1990s, when the relationship between the movement and the Turkish state was difficult. Following the advice of Turgut Özal, who personally supported the opening of Gülen schools in the post-Soviet space, the Turkish diplomatic circles saw in them a means of spreading Turkish cultural influence over the medium and long term. In so doing, they incited their Uzbek, Kazakh, Turkmen, and other counterparts to accept Gülen schools and facilitate their establishment.

However, the tide soon began to change, first in Uzbekistan and then in the other countries of the region. Incidentally this change in attitude coincided with the arrival in power of the AKP in 2002. In Russia,

Turkmenistan, and Azerbaijan the authorities began to wonder if the presence of Turkish schools, whose affiliation with a conservative network was becoming increasingly visible, did not risk favoring, in the long term, the development of political Islam—not to mention bringing conservatives preaching a moderate political Islam to power in Bishkek or Baku.¹¹ It did not escape them that Gülen's network and the AKP were very close and generally shared the same social base, namely the rising conservative layers of Anatolian society.

Which Future for the Gülenist Schools?

Since December 17, 2013, the alliance between Gülen and Erdoğan has not only imploded, but the two rivals also have begun a global settlement of scores affecting Gülenist foreign assets. In Central Asia and the Caucasus, the crisis unveiled the amplitude of the concealed political agenda of Gülen schools, one capable of endangering the democratically elected regime of the charismatic Erdoğan, who has been comfortably in power for over ten years. The infiltration of Gülenists into the police and justice systems doubtless led some regimes in Central Asia and the Caucasus to question the right of the schools to operate freely in their countries.

The crisis revealed the movement's political ulterior motives and his implantation in state structures in Turkey. Whatever its real political objective may be, the amplitude of the means deployed to attain this objective—notably the infiltration of the police and justice systems as well as the use of illegal phone taps, practiced widely if one believes the Turkish media¹²—are enough to show the determination of Gülen's movement. At this point, the Central Asian and South Caucasian regimes are confronted with two major questions: whether Gülen's network has the same power to harm them over the medium or long term, and whether it intends to use this power against the regimes in place. Consequent questions include how these regimes would react and how Turkish diplomacy would respond.

It is difficult to answer the first two questions, as it would necessitate an investigation combining both police and intelligence work. That said, the network does not have the same influence everywhere. In Uzbekistan, for example, almost nothing remains of its influence. In Turkmenistan, the schools managed to train hundreds, even thousands of students over the fifteen years that they existed. In Azerbaijan, Gülen's network is still quite active and influential. In this sense, the movement's weight varies

11 Bayram Balci, "Between Secular Education and Islamic Philosophy: The Approach and Achievements of Fethullah Gülen's Followers in Azerbaijan," *Caucasus Survey* 1, no. 1 (2013), <http://www.caucasus-survey.org/vol1-no1/bayram-balci-approach-and-achievements-of-Fethullah-Gulen-in-Azerbaijan.htm>.

12 Samia Makhoul and Nick Tattersall, "Turkish PM Says Tapes of Talk with Son a Fabrication," *Reuters*, February 24, 2014, <http://uk.reuters.com/article/2014/02/25/uk-turkey-erdogan-idUKBREA1N1ZS20140225>.

from one context to another and one can doubt its power to influence local politics, with the notable exception of Azerbaijan. In any case, Gülen's representatives in Central Asia and the Caucasus cannot risk interfering, and do not even have the means to do so.

Each Gülen project should be placed in the context of the movement's broader strategy. In Central Asia and South Caucasus, the objectives are purely educational and cultural. The goal is to train professionals who will create cultural bridges between their home countries and Turkey. They contribute to create a positive image for the movement, increase its international prestige, and reinforce its influence in Turkey. One should not forget that without the alliance and the support of the AKP, Gülen's disciples would have never attained such a level of collusion and infiltration in the Turkish government. In other terms, Erdoğan opened Pandora's box by making Gülen a special ally in his fight against Kemalist forces and quest for regional leadership. In Central Asia and the Caucasus, Gülen's network is not allied with any political actor. It remains restricted to its primary role, that of schoolmaster.

And yet Gülen's network risks suffering in Central Asia and the Caucasus from what is happening in Turkey. Its image and perceptions have been tarnished by the scandals of infiltration and political denunciation. The local regimes, already suspicious of the schools, will no longer regard Gülenists the same way and will increase their vigilance. One country, Azerbaijan, has already started to take concrete measures against Gülenist networks. The authorities have changed the status of the Gülen schools and a member of the presidential apparatus allegedly linked to the movement was fired.¹³ Just after the local elections in Turkey Erdoğan paid a visit to Baku, and his trip was dominated by the Gülen issue in Azerbaijan.¹⁴ In the other countries, this perverse boomerang effect could awaken the suspicion and mistrust of public opinion as well as local authorities, and stigmatize the students and graduates of Gülen schools.

Despite ten years of AKP power, Turkish diplomacy remains globally secular and Kemalist. Out of pragmatism but not without hesitation, it vouched for and provided

moral support to the educational activities of the *hizmet* movement. However, now that Prime Minister Erdoğan has compared the movement to the Assassin sect¹⁵ and asked during the annual conference of Turkish ambassadors that the 'misdeeds' of this organization be broadcast and explained around the world,¹⁶ the schools can no longer count on the moral support of the Turkish state. It is certain that all of the diplomats will not apply to the letter the instructions of the prime minister. Still, seeing the Erdoğan-Gülen split splashed across all global media suffices to complicate the schools' task in the post-Soviet area and beyond.

Conclusion

The confrontation between Turkish Prime Minister Recep Tayyip Erdoğan and the network of Fethullah Gülen is so far limited to the Turkish political sphere. The political map is being completely redrawn by this battle, one which will not calm down until the municipal and presidential elections in March and August 2014, if ever. This battle, of vital importance for both camps, will certainly continue abroad, with Central Asia and the Caucasus at its epicenter, since it is in this sphere that Gülen's network is best established.

However, the real threat for the network is not being attacked by the Turkish government in Central Asia and the Caucasus, but being considered dangerous by the local governments. Gülen's network has neither the intention (except possibly in Azerbaijan) nor the power to engage in local political struggles. Nonetheless, whether or not it nurses such an ambition, the Central Asian and Caucasian regimes likely believe it to be capable of as much. Whatever its future capacities and intentions might be, Gülen's network has already lost part of its credibility in these countries. Its strength arouses surprise but also mistrust, because it no longer has the means to hide its political objectives and its infiltration capacity in Turkey. Both time and energy will be needed for Gülen's representatives to prove to their Central Asian and Azerbaijani partners that their local objectives have nothing in common with the one they pursue in Turkey.

13 Shahla Sultanova, "Azerbaijan Backing Turkey's Crackdown on Gülen Movement," *Eurasianet.org*, April 15, 2014, <http://www.eurasianet.org/node/68274>.

14 Bayram Balci, "Gülen: Top Issue in the Agenda of Erdoğan's Visit to Azerbaijan," *Eurasia Outlook*, April 9, 2014, <http://carnegieendowment.org/2014/04/09/g%C3%BClen-top-issue-in-agenda-of-erdo%C4%9Fan-s-visit-to-azerbaijan/h7kt>.

15 Ihsan Yilmaz, "Erdoğan, Hizmet, assassins," *Today's Zaman*, 15 January 2014, http://www.todayszaman.com/columnists/ihsan-yilmaz_336711-erdogan-hizmet-assassins.html.

16 Tülay Karadeniz, "Erdoğan Tells Turkish Ambassadors to Spread Word of 'Traacherous' Plot," *The Daily Star Lebanon*, January 15, 2014, <http://www.dailystar.com.lb/News/Middle-East/2014/Jan-15/244144-erdogan-declares-war-on-gulens-empire-of-fear.ashx#ixzz2uRWuCi97>.

The United Arab Emirates as an Alternative Trade and Investment Partner in Central Asia

Sebastien Peyrouse¹ (2012)

The United Arab Emirates (UAE) is a late arrival on the Central Asian scene: although it recognized the independence of the post-Soviet republics in 1992, diplomatic and trade relations have been slow to take off. Turkmenistan waited until 2011 to open an embassy there, Kazakhstan until 2006,² while Kyrgyzstan, Uzbekistan, and Tajikistan have only opened consulates. The Emirates–Central Asian partnership began to blossom only in the second half of the 2000s, which saw an increasing number of official visits by both sides. The political relations between the two regions continue to be limited, however, to debating the evolution of the two regional organizations to which they belong, namely, the Islamic Cooperation Organization (ICO) and the Conference on Interaction and Confidence Building (CICA),³ or to discussing the Iranian nuclear program. At the commercial level, the UAE has stepped up its dynamism in recent years, presenting itself as an attractive alternative partner, offering low-interest loans with no political conditions, and serving as a trade crossroads between Central Asia, the Middle East and Southeast Asia.

Continuing Low-Level of Trade Exchanges

At the level of trade, the UAE has only made real headway into Turkmenistan, whose policy of “permanent neutrality” and its reluctance to open up to Western or Russian investments has left the field free for Asian (mainly China) and Middle Eastern (mainly Turkey and Iran) actors. As of 2010, the UAE was Ashgabat’s fifth-largest trade partner. Among the Emirate companies established in the region, noteworthy are Adel Al Hussain Gen Trading Co., Kefayat General Trading Co. LLC., as well as Technosat Trading LLC.⁴

In Uzbekistan, the Islam Karimov regime’s traditional distrust of the Gulf countries has done nothing to help

the development of commercial relations. The majority of projects to build mosques with Gulf funds were stopped halfway through the 1990s—despite the fact that the type of Islam endorsed in the UAE is not the Saudi Wahhabism—and this trend has continued. As such, the Uzbek authorities recently stopped a project to build a mosque in the center of Tashkent, financed by Dubai Properties. In 2007, subsequent to a meeting between the Uzbek president and Sheikh Mokhammad bin Rashid al-Maktum, Deputy President and Vice Prime Minister of the Emirates, more than 20 investment projects worth US\$3.5 billion were concluded,⁵ but only few of them have been realized. Trade exchanges actually fell from \$116 million in 2005 to 93 million in 2007⁶ and to 24 million in 2008, but the Uzbek authorities claimed a revival of trade exchanges for the year 2011, at \$147 million.⁷

The UAE plays up its role as a platform for the transit and re-export of products between the rest of the world and the landlocked countries of Central Asia. In fact, two other countries whose geography would seem to make them destined to play a transit role between Central Asia and the southern seas, namely Iran and Pakistan, are for various reasons practically inaccessible to products coming in or out of Central Asia. Pakistani routes, including even the Karakoram Highway, which goes through Xinjiang, are used very little as a way of getting to or from Central Asia, whereas links with Iran are complicated due to the international ban in force on the Tehran regime. The UAE has been able to take full advantage of this situation. It receives Uzbek cotton—which alone comprises three-quarters of all Uzbek exports to the Emirates—and re-exports it to Sri Lanka and Bangladesh, with Uzbek and Kazakh hydrocarbons and chemical products headed for regions in the Indian Ocean and the Pacific. In exchange, to Central Asia the UAE transports electrical and electronic materials produced in Southeast Asia (Malaysia and Vietnam, among others), in particular home appliances, as well as equipment for the transport sector, and diverse materials linked to the building sector.⁸ Today approximately 10,000 Kazakhstani

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2 “Turkmenistan and UAE,” The Turkmenistan Embassy in the UAE, <http://www.tkmemb-uae.org/relation.php>.

3 “Bilateral Cooperation Between The Republic Of Kazakhstan And The United Arab Emirates,” The Kazakhstan Embassy in the UAE, <http://kazembemirates.net/info.php?p=2&n=10>.

4 “V OAE sostoyalsya pervyi investitsionnyi forum Turkmenistana,” *Russkie Emiraty* 36, no. 2 (2010), <http://www.dxb.ru/project/re/detail.php?ID=4022>.

5 “Vikiliks: Karimov, araby i dengi na mecheti,” *Uznews.net*, June 12, 2012, http://www.uznews.net/article_single.php?lng=ru&cid=22&aid=940.

6 Ibid.

7 See Uzbekistan Statistics Committee, http://www.stat.uz/upload/iblock/fe4/tab1_en_2012.doc.

8 Anvar Babayev, “President of Uzbekistan visiting UAE,” *Uzbekistan National News Agency*, March 18, 2008, <http://uza.uz/en/politics/191/>.

citizens are residents of the UAE, most of whom work on a contract basis in the trade sector and in private business.⁹

Table. UAE's Place in the Trade Total of Central Asian States in 2008 and 2010

	2008		2010	
	Millions of US\$	Rank	Millions of US\$	Rank
Kazakhstan	86.8	24	86	22
Kyrgyzstan	23.5	15	49.7	11
Tajikistan	61	9	49.1	12
Turkmenistan	549.3	6	543.3	5
Uzbekistan	24	>50	unknown	-

Source: 2011 European Commission statistics, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries-andregions/>

The UAE's role as a trade hub has given rise to new strategies of cooperation in the sectors of freight and the transport of air passengers. At the start of the 1990s, Dubai became the first UAE destination to which Central Asians had relatively easy access: while shuttle trade had previously been limited to Istanbul and Kashgar, it quickly spread to Dubai, which became known for the sale and purchase of gold and jewelry, as well as electronic products. Dubai's status changed in the 2000s, as key products started being delivered directly to Central Asia by Chinese companies, but the UAE's "reconversion" to tourism and high technology has enabled it to remain a key destination for the Asian middle- and upper-classes. Accordingly, airline routes have been expanded. Etihad Airways now flies to Kazakhstan, Air Astana to Abu Dhabi,¹⁰ and Dubai is financing the construction of an international terminal at Bukhara airport.

A Privileged Sector: Hydrocarbons

Hydrocarbons constitute the main sector of cooperation between the UAE on one side, Kazakhstan and Turkmenistan on the other. The Abu Dhabi-controlled International Petroleum Investment Company (IPIC) has been interested in the Caspian Basin for several years, and signed an agreement with KazMunayGas for the construction of

a petrochemical complex near Atyrau.¹¹ A joint venture between the British Petrofac and Abu Dhabi's Mubadala Development Fund, Petrofac Emirates won a contract along with ConocoPhillips for the joint operation of block N in the Kazakh part of the Caspian Sea.¹² The block's reserves are estimated at about 4.65 billion barrels of oil, including 2.13 billion barrels of recoverable reserves. This cooperation should guarantee KazMunayGas technology transfers for offshore exploration and exploitation. The start of commercial exploitation is scheduled for 2016.¹³ For its part, in 2009 Turkmenistan awarded a contract of \$9.71 billion to a consortium of five companies, including Petrofac Emirates and Dubai's Gulf Oil and Gas, to develop the huge South Yolotan gas deposit. Petrofac Emirates won a second contract worth \$4 billion for the development of an annual production of 20 billion cubic meters (bcm) and the building of a sulfur extraction plant and other infrastructures on the South Yolotan site.¹⁴

Lastly, Dubai-based Dragon Oil has set up operations on the coast of the Cheleken Peninsula, situated in the western part of Turkmenistan, near Hazar.¹⁵ The area was already known for its oil reserves at the start of the twentieth century and was one of the most exploited sites in all Central Asia during the Soviet period. Dragon Oil's working area covers 950 km² and contains two fields situated in the Caspian Sea, namely Dzheitune and, further to the north, Dzhygalybeg (Zhdanov), which was explored and exploited by Soviet firms in the 1960s and 1970s. In regard to the first field, Dzheitune, Dragon Oil has begun working on the 38 existing wells and drilled 40 more. It has also restored the former platforms and built two new ones. The signed contract is valid for 25 years starting in 2000 and production is being shared between the company and the Turkmen authorities. In 2010, Dragon Oil financed the development of 11 new wells (oil and gas) for a sum of \$454 million and plans to invest a further \$150 million by 2013 in gas exploitation (and between \$600 and 700 million in oil exploitation). According to its data, the gas reserves of Cheleken are estimated to contain at least 400 bcm, which represents only half of what was initially calculated during previous assessments. In January 2012, Dragon Oil acknowledged its difficulties in reaching agreement with the Turkmen authorities on the gas sale price.¹⁶

9 "R. Ramesh: UAE, Kazakhstan intensify ties on multiple fronts," *Gulf Today*, October 11, 2012, <http://gulftoday.ae/portal/2d40241b-2a30-4438-94a3-88813db8b081.aspx>.

10 D. Armanov, "Sblizhayut vozduzhnye mosty," *Kazakhstanskaya pravda*, December 6, 2008.

11 "Kazmunaygas, International Petroleum Investment Company Agreed to Cooperate under West Kazakhstan Integrated Gas-Chemical Facility Project," *CIBC Group*, http://www.cibcgroup.com/shab_news_en.shtml?cgi-bin/show_news.pl?lang=en&tid=2277.

12 Stanley Carvalho, "UAE's Mubadala, Conoco agree Kazakh deal," *Reuters*, October 5, 2008, <http://www.reuters.com/article/2008/10/05/emirates-mubadala-conoco-idUSL512067420081005>.

13 More details in "Kazakhstan. Oil and Gas Report," Q3 2012, Business Monitor International, May 2012.

14 Tamsin Carlisle, "UAE firms grab slice of \$10bn Turkmenistan gas deal," *The National*, December 30, 2009, <http://www.thenational.ae/business/energy/uae-firms-grab-slice-of-10bn-turkmenistan-gas-deal>.

15 More details in "Turkmenistan. Oil and Gas Report," Q3 2012, Business Monitor International, May 2012, 51-54.

16 Ibid.

Emirate companies are also in Kyrgyzstan, but to a lesser extent. Petrofac has been working since 1996 on the refinery of the Kyrgyz Petroleum Company (KPC), located in the Jalalabad region, which will have its processing capacity upgraded to about 400,000 tons per year of crude oil and should be able to process smaller proportions of gas condensate, naphtha, and semi-refined distillates.¹⁷ Among the investment projects of recent years, Masdar, an Emirati enterprise established in the Ferghana Valley, has been working in the sector of gas preservation, in particular to reduce the loss of gas due to leaks.¹⁸

New Niches of Cooperation: Construction and Agriculture

All the Central Asian regimes promote “political architecture” that aim to reshape their capital cities, and as such the architectural “experiments” in the Emirates, in particular in Dubai and Abu Dhabi, are highly regarded. Aldar Properties, for instance, has been tasked with building the huge Abu Dhabi Plaza complex in the Kazakh capital Astana at a cost of more than \$1 billion. The complex will contain a shopping center and offices, as well as hotels, a leisure center, and apartments.¹⁹ The reconversion of the Emirate economies to new technologies and services is also attractive for Central Asian leaders. The Abu Dhabi-based Masdar Institute, a scientific and technological institute specialized in training people for jobs in the sector of advanced energy and sustainability, has stated its willingness to sponsor and host 15 PhD candidates from Kazakhstan. There are already about 1,000 Kazakh students studying in various Emirati universities. Cooperation is also being considered in the space sector: the president of the state agency Kaskosmos, Talgat Musayev, recently signed a cooperation agreement with the Institute of Sciences and Cosmic Technologies.²⁰

For its part, the UAE is interested in the Central Asian states’ agricultural produce and agribusiness capacities. In the Emirates, public debates about food security are a regular occurrence: with a rising population and falling local agricultural production due to the dearth of water and arable land, they are heavily dependent on imports and

therefore vulnerable to the volatility of the world market, and, like China, are seeking to shore up agricultural markets overseas, especially in Africa, Ukraine, and Kazakhstan.²¹ Kazakhstan’s rise to power as a cereal exporter, in particular of wheat, and its status as the world’s second-largest exporter of flour, has raised interest in the UAE. The British–Emirati Pharos Miro Agricultural Fund, launched in 2009, is currently in the process of locating land for wheat production in both Kazakhstan and Uzbekistan.²² Agricultural cooperation was also a high priority during the state visit of UAE President Sheik Shaikh Khalifa bin Zayed Al-Nahyan to Kazakhstan in October 2012.²³

New Banking and Investment Opportunities

The banking sector has also established itself as a key sector of cooperation, especially in regard to Islamic financing that has proven very dynamic, with the UAE being a leader in this domain. While Kyrgyzstan was the first to accept Islamic financing, it has since been caught and overtaken by Kazakhstan in terms of the amount of financing received.

As early as 2006, Bank TuranAlem (BTA) took out a loan of \$200 million from Calyon Bank and the Abu Dhabi Islamic Bank. In 2007, Alliance Bank signed a contract to receive an Islamic finance-compliant \$150 million loan from Calyon Corporate, the investment Bank SA, and Abu Dhabi Islamic Bank. In 2008, Kazakhstan and the government of Abu Dhabi decided to create a fund of \$1 billion to invest in energy and financial services in Kazakhstan and other countries of the Commonwealth of Independent States (CIS). The Falah Growth Investment Fund, funded by Falah Growth Fund, Aztech Investments Ltd (an IPIC affiliate organization), Kazyna Capital Management, and Ordabasy, confirmed its financing of projects in the areas of gas and oil, insurance, and commercial property.²⁴ In 2012, it reported investing \$50 million in a capacity upgrade of the Karaganda hydropower station TETS-3.

The Kazakh authorities were impressed with the viability of Islamic finance during the global financial crisis.²⁵ As the flows of foreign direct investment to the

17 See Petrofac website at <http://www.petrofac.com/index.asp?pageid=205>.

18 “MASDAR discuss issues on strengthening cooperation,” *Uzdaily*, May 18, 2010, <http://www.uzdaily.com/articles-id-10101.htm>.

19 “Agreement signed to construct Abu Dhabi Plaza in Astana,” *Tengrinews*, March 29, 2011, http://en.tengrinews.kz/kazakhstan_news/Agreement-signed-to-construct-Abu-Dhabi-Plaza-in-Astana-467/.

20 “Kazakhstan i OAE podpisali soglasenie po sotrudnichestvu v kosmicheskoy sfere,” *Kaskosmos*, November 16, 2011, <http://kazcosmos.gov.kz/ru/novosti/16-11-2011.html>.

21 Andrew England, “UAE to invest in Kazakh agriculture,” *Farmgrab*, July 16, 2008, <http://farmlandgrab.org/post/view/2419>. See also Eckart Woertz, Samir Pradhan, Nermina Biberovic, and Chan Jingzhong, “Potential for GCC Agro-investments in Africa and Central Asia,” *Gulf Research Center Report*, September 2008, 4.

22 Oane Visser and Max Spoor, “Land grabbing in post-Soviet Eurasia: the world’s largest agricultural land reserves at stake,” *Journal of Peasant Studies* 38, no. 2 (2011): 314.

23 “R. Ramesh: UAE, Kazakhstan intensify ties on multiple fronts.”

24 “The establishment of an investment fund Falah Growth Fund,” *Kazyna*, September 10, 2008, http://www.kcm-kazyna.kz/en/press_centra/news/the_establishment_of_an_investment_fund_falah_growth_fund/.

25 Clare Nuttal, “Support from the top for Islamic finance market,” in *Investing in Kazakhstan 2011* (Washington, D.C.: New Desk Media, 2011), 131-33.

country dropped by 20 percent in 2009, the government announced its intention to seek \$10 billion of Islamic financing over a period of five to seven years.²⁶ Today Kazakhstan has a number of *sharia*-friendly organizations working in the country, such as Fattah Finance (one of the first companies to provide financial services compliant with Islamic standards), Istisna'a Corporation (one of the leading companies in terms of Islamic financial consulting), and Halal Mutual Insurance Takaful, although there is no shortage of experts who claim that the Kazakh population is distinctly wary of Islamic financing.

In light of the world economic crisis, Nazarbayev sought to accelerate this Islamic financial presence in Kazakhstan. In 2010, he ratified an agreement between the Abu Dhabi Investment Board and the Kazakh government to establish the first Islamic bank in the country, Al Hilal, which now has offices in Almaty, Astana, and Shymkent.²⁷ The bank is primarily out to obtain projects for large corporations in the framework of Islamic *murabaha* contracts; in 2010, it invested \$250 million in the Kazakh economy and is expected to invest \$1 billion more by 2012–13.²⁸ In August 2010, approval was given to Kazakhstan's Road Map for the Development of Islamic Finance, which is concerned with improving the regulation of Islamic finance, attracting investments in accordance with *sharia* from Islamic Cooperation Organization members, the introduction of Islamic financial standards, and the establishment of micro-finance *sharia*-compliant institutions. Nazarbayev also suggested that the Organization of Islamic Cooperation and the Islamic Development Bank could create specific banking mechanisms for small- and medium-sized businesses.²⁹

Though Islamic financing is still minimal in present-day Kazakhstan (it occupies only 1 percent of the market share, whereas the country's six largest banks account for 75 percent of the market), the development of Islamic financing in Central Asia is one of the drivers being used by the UAE to establish itself in the region.

Concluding Remarks

The growth of bilateral exchanges between Central Asia and the UAE does not mean that relations are without pitfalls: the Central Asian governments often complain

about what they consider to be hidden Islamic proselytism and, unfounded or not, these complaints greatly influence the public's perception of the new partnership with the Gulf countries.

Moreover, the UAE is often considered as an accomplice in the strategies of incumbent elites to siphon public wealth and obtain occult financing. The significant amount of gold trafficking by Dubai, in particular from Uzbekistan, is widely talked about, as are the prostitution networks which send young Central Asian women into sexual slavery in the Emirates. Lastly, the Emirates play a considerable role in the Central Asian black market for hunting tourism. In Turkmenistan such "tourists" arrive by private jet and their large budgets allow them to obtain multiple permits (usually one hunter is only allowed to kill one animal), including for endangered animals that are not supposed to be hunted.

Another phenomenon is also taking shape, namely the export of labor forces. Central Asian labor migrants, who typically go to Russia and other regional destinations such as Kazakhstan, are now starting to head to the UAE, which is a major consumer of cheap labor. Formal agreements in this regard have been signed with Tajikistan and Turkmenistan, while Tajikistan also plans to sign agreements with other Gulf countries—Saudi Arabia, Kuwait, and Qatar.

Despite the existence of some "shadowy" areas of bilateral trade, the Central Asian governments have reason to be pleased about the opportunities offered by the UAE, which include alternative investments with no political strings attached or geopolitical pressure, and which enable them to stimulate competition in order to rival the demands of the West, Russia, and China. The UAE provides hope for many Central Asians: not only does it project a modern image of Islam, one that is in tune with cultural and economic globalization, but also it does not adopt an anti-Western stance on the international stage. This alignment between the UAE and Central Asia is likely to increase in the years ahead: the coming to power of Islamist parties in some Middle-Eastern countries after the 2011 Arab Spring goes against the international positioning of the Central Asian states, which are anxious to appear pro-Western and secular, and who are looking for new partners who share similar strategies of development.³⁰

26 "Kazakhstan Embraces Non-Traditional Financial Instruments," The Kazakhstan Embassy in the Netherlands, no date, http://www.kazakhembassy.nl/index.php?option=com_content&view=article&id=203:kazakhstan-embraces-non-traditional-financial-instruments-&catid=35:general&Itemid=86.

27 "Al Hilal Bank Seeks to Popularise Islamic Banking in Kazakhstan," *Gazeta.kz*, February 23, 2011, <http://engarticles.gazeta.kz/art.asp?aid=334791>.

28 "Al-Hilal Bank close to Kazakhstan launch," *Silk Road Intelligencer*, March 29, 2010, <http://silkroadintelligencer.com/2010/03/29/al-hilal-bank-close-to-kazakhstan-launch/>; "Bilateral Cooperation Between The Republic Of Kazakhstan And The United Arab Emirates," The Kazakhstan Embassy in the UAE, no date, <http://kazembemirates.net/info.php?p=2&n=10>.

29 "Second Islamic Finance Forum in Astana Raises Business Awareness," *Kazworld*, September 22, 2011, <http://kazworld.info/?p=16679>.

30 "Migratsionnaya sluzhba Tadjikistana usilivaet voprosy profpodgotovki trudovykh migrantov," *Migration.tj*, November 15, 2011, <http://www.migration.tj/ru/index/index/pageId/511/>; Nargis Kassenova, "The impact of the global economic crisis on Central Asia and its implications for the EU engagement," *EUCAM Working Paper* No. 5, October 2009.

Pakistan and the GCC Countries: Complementarity, or a Center-Periphery Tale?

Bruno De Cordier¹ (2013)

This paper examines the economic, as well as other, levels of interaction and ties between Pakistan and the states, economies, and societies of the Gulf Cooperation Council or GCC.² The relevance of this subject lies not so much in the overall discussion of so-called South-South cooperation as it does with the spaces and dynamics that might shape the fledgling multi-polar world order. These ties and relations are nothing new. Historically, interaction and economic and ideological ties between what are now the GCC countries—which were established as modern nation-states between 1927 and 1971 and whose political regimes are all hereditary autocracies—and the state of Pakistan which was founded in 1947 and has a republican system—have been in existence since the pre-modern era. Sea traffic and coastal trade between the Makran coast, Oman, and the Gulf, for example, has existed in one form or another for centuries.³ And the integration of the Makran coast, Multan, and Sind in the eastern frontier of the Islamic sphere and the caliphs by the year 713 did not only implant Islam on the subcontinent, but thus also created a common denominator among the different social and ideological identities that has survived until present day.

The Defense Symbiosis

Much of Pakistan's interaction with the Persian-Arabian Gulf revolves around its multi-dimensional ties with the GCC's core state, Saudi Arabia. Pakistan has the peculiar distinction of being one of the few modern states that has been specifically founded for a religiously defined community—in this case for South Asia's Muslim population—while Saudi Arabia, by far the GCC's geographically, demographically, and economically

largest member, has since its founding been the self-declared guardian and site of Mecca and Medina, the Muslim Ummah's holy centers. The latter is not an unimportant factor, since Pakistan, through the size of its population and its confessional geography, reflects well the reality that the demographic center of gravity of the Ummah has long shifted from the Arab sphere eastward.

Pakistan and Saudi Arabia also have a tradition of close military cooperation. The state of Pakistan, the backbone of which is the military, has been providing military aid to Saudi Arabia for decades, starting with assistance in training its air force in 1961 and the provision of air raid support against an incursion by socialist South Yemen in 1969. Since then, varying numbers of Pakistani military personnel have been stationed, in one capacity or another, in Saudi Arabia. During the First Gulf War (1990-91), Pakistan sent troops to protect Mecca and Medina while Saudi Arabia has also been providing various forms of support to Pakistan's nuclear program since 1979-80, and provided favorable oil supplies and loans to help it cope with the financial costs of its nuclear program and the economic sanctions imposed in the aftermath of its nuclear test in 1998. More recently, since late 2001-03, military cooperation has been pursued within the framework of "anti-terrorism," although the latter, in Saudi Arabia as in other GCC states, is often used to justify containing internal dissent in general.⁴

Military cooperation has a sizeable economic dimension since business activities in sectors as various as agro-industry, transport and communications, banking and energy are related to or initiated by groups and individuals from Pakistan's defense sector, which allegedly accounts for approximately 25 percent of the country's de facto gross domestic product. Companies embedded in networks of military or former military personnel are also active in the trade between Pakistan and the GCC

1 Ghent University, Belgium.

2 The Gulf Cooperation Council (GCC) or Cooperation Council for the Arab States of the Gulf (CCASG), as it is officially called in full, was formed during the Iran-Iraq war in 1981 as an economic, political and security cooperation and regional integration framework between six Arab states bordering the Persian-Arab Gulf. Its member states up to this day are, in alphabetical order, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The organization's portal is at www.gcc-sg.org. For background on the GCC's formation and the real and perceived interests behind it, see Ruhollah K. Ramazani and Joseph A. Kechichian, *The Gulf Cooperation Council: Records and Analysis* (Charlottesville: The University Press of Virginia, 1988).

3 The port of Gwadar on Pakistan's Makran coast was part of Oman until 1958, and about one quarter of Oman's population claim ancestry from the Makran region and Baluchistan. See Dionisius A. Agius, *Seafaring in the Arabian Gulf and Oman: People of the Dhow* (London: Routledge, 2005).

4 In 2012 or the last available year, Saudi Arabia's and Pakistan's respective military expenditures amounted to 8.9 and 2.7 percent of their GDP. The GCC countries' average defense spending amounted to 5.15 percent in that year, with Saudi Arabia and Oman having the highest shares. See: portal.sipri.org/publications/pages/expenditures/country-search.

countries.⁵ Finally, the military sectors of Pakistan and Saudi Arabia, as well as several other GCC states, are traditionally major Anglo-American clients, both in terms of arms and equipment purchases as well as aid. Just as the elites of the GCC states consider extraneous military protection and suppliers crucial to their survival, the U.S. considers all these states to be vital to its security strategy. While originally, until 1988-91, this strategy sought to contain socialism, since 1997-2001 the issues of terrorism, emerging powers, and energy policy—four GCC countries are OPEC members—have formed the basis of the U.S. engagement in the Arab and wider Islamic world.⁶

Oil, Land, and Free-Trade Agreements

Since 1973, the privileged military ties between the U.S., Saudi Arabia and other GCC oil exporters have been one of the core components of the petrodollar system, which also applies to the energy trade between the GCC sphere and Pakistan. This brings us to the second level of interaction—that is, the international trade and investment streams between the GCC economies and Pakistan. In 2011, total Pakistan-GCC trade officially stood at some \$18 billion of which \$15 billion was comprised of imports from, and \$3 billion exports to, the GCC. If one looks at Graph 1, one immediately notices that in terms of imports, the GCC, as an economic bloc, formed by far the largest single trade partner of Pakistan in 2011. Almost all of Pakistan's trade with the GCC bloc is, in order of magnitude, with the United Arab Emirates (UAE), Saudi Arabia, and Kuwait. As one can rather easily guess, this is largely because of Pakistan's energy sector's dependency on petroleum imports from the GCC, of which the near-totality comes from these three oil-exporting countries.

Pakistan has been trying over the years to diminish its dependency on GCC oil through the partial reorientation of its energy supplies to natural gas and plans to import

gas by pipeline from Iran by 2015. Other projects include prospecting and developing its domestic natural gas reserves in Sui and Makran as well as its coal and oil fields in the Thar Desert, and by upgrading the new port in Gwadar for the planned import of natural gas and coal from other regions. Pakistan's exports to the GCC are mostly composed of agro-industrial products, food, and textiles, while its main export commodities—raw cotton, sugar cane, and other agro-industrial commodities—are largely directed to the U.S. and European markets. The GCC's share as an export market for Pakistan has been shrinking slightly in recent years, which results, as seen in Graph 1, in a highly unequal trade balance.

Direct foreign investment from the GCC bloc to Pakistan comes predominantly from the UAE, Saudi Arabia, Qatar, and Kuwait. Over the last fifteen years, business groups and companies from the GCC bloc have benefited from Pakistan's efforts at privatization in the telecommunications and finance sectors, and have also invested in real estate, oil infrastructure, transport, and the steel industry. The latter is a sector in which the family of Pakistan's current prime minister, Nawaz Sharif, who was in exile in Saudi Arabia between late 2000 and 2007, has assets and interests.⁷ Of the GCC countries, the UAE was the largest individual provider of FDI to Pakistan with a total of \$3.5 billion invested during the period 2000-09. By comparison, the U.S. provided \$4.8 billion while \$646.8 million came from Saudi Arabia during the same period.⁸

Since 2002 and especially after the global food commodity price spikes in 2008, an increasing interest and activity can be observed in terms of FDI flows from the GCC towards the Pakistani agro-industrial sector (especially the dairy and fruit branches, fisheries, and livestock) and related infrastructure.⁹ This fits in with the trend in which food imports to the GCC, which amount already to 90 percent of the region's needs, are foreseen to double from \$27.5 to \$53.1 billion between 2011 and 2020.

5 The influence of this military-economic fabric between the GCC and Pakistan goes even further in the sense that Pakistan and two GCC states (Saudi Arabia and the UAE) were the only countries that officially recognized, until they were pressured by the U.S. and the UN to withdraw their recognition in late 2001, the Islamic Emirate of Afghanistan. The "Taliban state," as it is better known, existed from fall 1996 to late 2001 and continued as a shadow state in parts of the country after its official demise. The internationally isolated entity was not only perceived to be a common sphere of influence, but also a society and economy the reconstruction of which after years of civil war could, through its recognition, be steered by Pakistan and the GCC's leading countries. For an in-depth study on defense-related business structures and activities in Pakistan, see Ayesha Siddiqi, *Military, Inc.: Inside Pakistan's Military Economy* (Oxford: Oxford University Press, 2007).

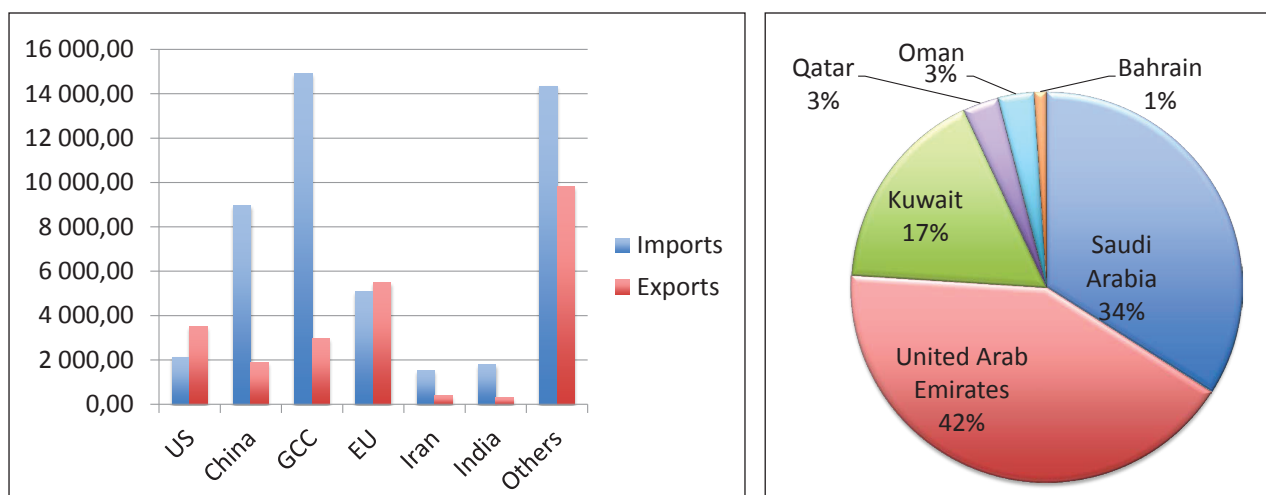
6 With \$13.8 billion in purchases between 2007 and 2010, Saudi Arabia was the primary buyer of U.S. arms and military equipment in that period. Pakistan was seventh with contracts worth \$4.1 billion. Richard F. Grimmett, "US arms sales: agreement with and deliveries to major clients, 2003-2010," *Congressional Research Service report* № 7-5700 R42121, 2011. Both countries are also major clients for the UK's arms industry, and received various forms of military aid from the U.S., especially during the Cold War and since the 'War on Terror.' See: "Aid to Pakistan by the numbers," Centre for Global Development, www.cgdev.org/page/aid-pakistan-numbers; and Tim Niblock, *Saudi Arabia: Power, Legitimacy and Survival* (London: Routledge, 2006), 48-57.

7 The Ittefaq Group of Industries was founded by the father of Pakistan's current prime minister; besides being a major stakeholder and operator in Pakistan's steel sector, the group is also active in the sugar, paper and textile industries. See Raymond W. Baker, *Capitalism's Achilles Heel: 'Dirty Money' and how to Renew the Free-Market System* (Hoboken, NJ: John Wiley & Sons, 2005), 82-83.

8 Muhammad A. Khan and Shujaat A. Khan, "Foreign Direct Investment and economic growth in Pakistan: a sectoral analysis," *Pakistan Institute of Development Economics Working Papers* 67, 2011, 9.

9 Eckart Woertz, Samir Pradhan, Nermina Biberovic, and Chang Jingzhong, "Potential for GCC agro-investments in Africa and Central Asia," *Gulf Research Centre Report*, 2008, 6-7.

Graph 1. The Position of the GCC Countries in Pakistan's Overall Foreign Trade in 2011 (In Millions Of \$), and Breakdown by GCC Country (In % Share of Total)



Source: Figure created by the author, June 2013, on the basis of statistics in the Pakistan sheet of the European Union's Trade Directorate (2013), trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113431.pdf

The food security strategy for the GCC also involves some African countries with historical and cultural ties to the Arabian Peninsula.¹⁰ GCC actors are confronted in this field with similar interests from Chinese, Southeast Asian, and European groups and companies.

This certainly boosts the agro-industrial sector in Pakistan; but the ensuing competition for access to land also steadily exacerbates social tensions and fault lines in a country where agriculture employs 43 percent of the labor force. Indeed, the real and perceived practice of land grabs mainly benefits the neo-feudal landowner elites to the detriment of family-based agriculture and fisheries.

Since 2006, the GCC has sought to push through a free trade agreement with Pakistan. Such an agreement is to theoretically boost the volume of trade between Pakistan and the GCC up to \$350 billion by 2020. The actual agenda, is however, perceived to be particularly driven by the interests of Qatar. As one of the world's major exporters of natural gas and, as such, heavily concerned by Pakistan's intentions to import gas from Iran, the rationale for such a free trade agreement is to anchor and deepen Pakistan's energy dependency on the GCC including in the non-oil sector.

Members of the Pakistani power and business elites have also invested in real estate and in the service industries in the Persian-Arabian Gulf's hub cities and so-called economic free zones, and often possess bank accounts in Bahrain. The latter's status as a tax haven for the wealthy

explains, along with Iran's perceived role in the events in the majority Shi'ite but Sunni-ruled kingdom, why the uprising in early 2011 was suppressed, for now at least, with the help of Saudi Arabia, the UAE, and other outside actors, including Pakistan. The latter did not happen through open and direct military intervention, as was the case with Saudi Arabia and the UAE, but rather occurred through the recruitment of up to some two thousand Pakistani personnel and advisors for Bahrain's national guard and riot police; these were recruited through so-called private security contractors from wider business circles connected to the Pakistan military. Many of the recruits are allegedly retired military and police officers from the Makran region.¹¹

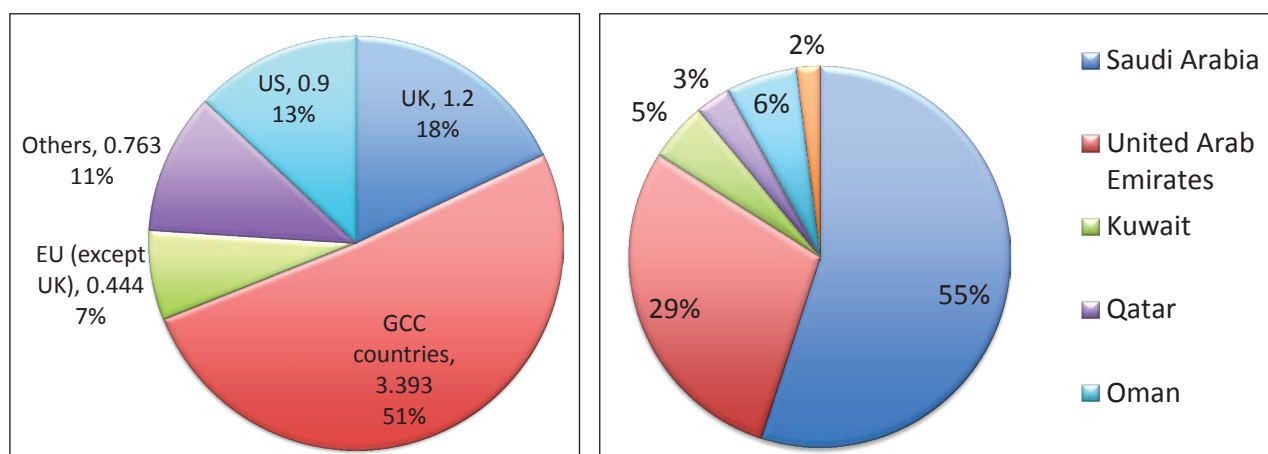
Labor Migration and the Remittance Economy

They form, however, but a niche segment in what is an enormous sphere of labor migration between Pakistan and the GCC. As can clearly be seen from Graph 2 below, the GCC countries—and Saudi Arabia and the UAE in particular—are by far the most significant destination for Pakistani labor migrants and expatriates in the world. In 2012, nearly 3.4 million Pakistani migrants, mainly men, lived and worked in the GCC countries at least on a seasonal basis. At first glance, this is easy to explain by the stark demographic and economic misbalance between Pakistan and the GCC. In 2012, the GCC sphere had a

¹⁰ Some GCC countries like Saudi Arabia also decrease domestic agricultural production in order to save water resources that are increasingly under pressure. "The GCC in 2020: resources for the future," *Economist Intelligence Unit* 16, 2010.

¹¹ Mujib Mashal, "Pakistani troops said Bahrain's crackdown," *al-Jazeera*, July 2, 2011, www.aljazeera.com/indepth/features/2011/07/2011725145048574888.html.

Graph 2. The GCC Sphere in the Regional Distribution of the Pakistani Diaspora in 2012 or the Last Available Year (In Millions of Migrants and Expatriates), and Breakdown by GCC State (In % Share of Total)



Source: Figure created by the author, June 2013, on the basis of statistics in Rashid Amjad, G.M. Arif, and M. Irfan, "Explaining the ten-fold increase in remittances to Pakistan, 2001-2012," *International Growth Centre Working Paper 12/0391* (2011), 12

total population of 43.3 million of which Saudi Arabia accounted for nearly two-thirds, whereas the population of Pakistan was 175.3 million, or over four times that of the GCC's population. Similarly, while the GDP per capita was \$2,792 in Pakistan in 2012, the average in the GCC countries was \$44,987.¹² Such discrepancies, however, fail to explain the scope of these migration patterns.

As previously said, trade, transport, and migration ties between southern Pakistan and the GCC countries, Oman in particular, have been in existence for centuries, and several population groups in Oman and Saudi Arabia claim ancestry from regions that are now in present-day Pakistan. Thus, networks and niche presences that were later to become instrumental in modern labor migration already existed. It was, however, not until 1980 that such sizeable migration and expatriation from Pakistan to the GCC area occurred. The oil boom of 1971-73 initially attracted labor migrants from Arab countries outside of the GCC. After 1980, growing labor demand, a native GCC population that is culturally less inclined to engage in the specific occupations needed, and a Pakistani foreign policy that increasingly leaned towards the Persian-Arabian Gulf, all culminated in a second immigration wave in which Pakistani workers were very prominent.¹³

Another landmark event in this process came after the First Gulf War when Saudi Arabia and other GCC countries decided to turn eastward to Pakistan and

other countries to fulfill their labor demands, and so replace those Palestinians and other Arabs who had been supportive of Saddam Hussein's Iraq and were as such perceived to be a security threat.¹⁴

Finally, between 1997 and 2001, the decision by several GCC governments to diversify and modernize their oil- and trade-based economies and the high oil prices led to a rapid surge in development activity, a 259 percent regional GDP growth between 1998 and 2008, as well as a peak in labor demand. The proportion of labor migrants (of all nationalities) in the GCC's active population now ranges from over 30 percent in Saudi Arabia to over 90 percent in the UAE and Qatar.¹⁵

Pakistani migrants in the GCC are primarily employed in construction. The GCC region's modern metropolises and, more recently, the towering skyscrapers, infrastructure, and international elite developments (malls, apartments, gated communities, golf courses and other leisure facilities...) in Dubai and Abu Dhabi are in no small part built employing Pakistani labor. Other sectors in which Pakistanis are well-represented are all sorts of maintenance (mechanic workshops, gardening...), small- and medium-scale trade, as well as the taxi industry and other transport activities. As such, as one can see in Graph 3, the GCC economies form by far the largest source of remittances to Pakistan, followed far behind by continental Europe and the UK.

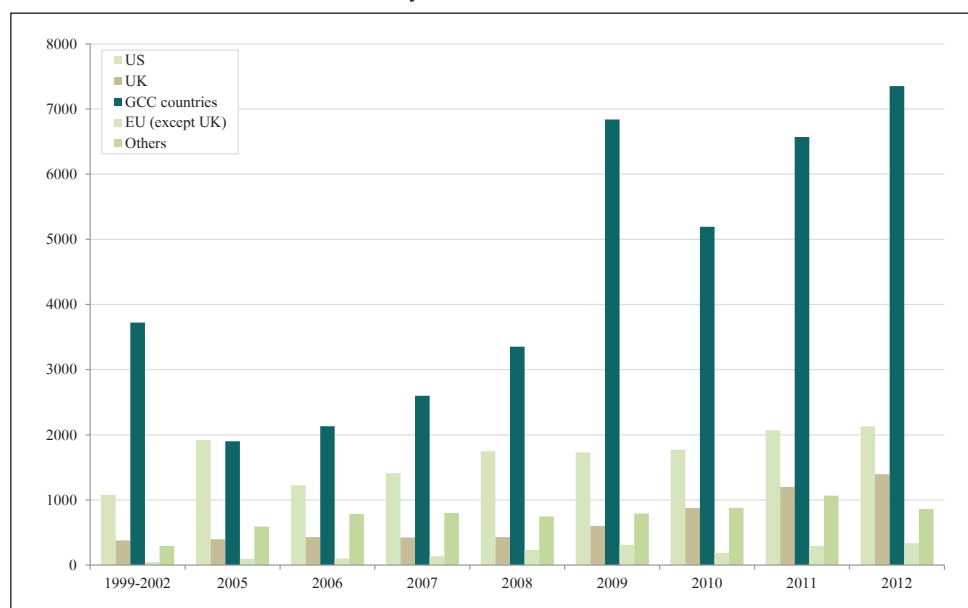
12 "Facts and figures on IDB member countries," Islamic Development Bank, IDB Data Resources and Statistics Department, 2012.

13 Pakistan's foreign orientation towards Saudi Arabia and the Persian-Arabian Gulf in general was especially explicit under the leadership of General Zia-ul-Haq, who was in office from fall 1978 to summer 1988.

14 Marc Lavergne, "Golfe arabo-persique: un système migratoire de plus en plus tourné vers l'Asie," *Revue européenne des migrations internationales* 19, no. 3 (2003): 229-241.

15 Vincent Piolet, "Les émirats et royaumes arabes: les travailleurs migrants au pays des 'free zones,'" *Hérodote* 133 (2009): 136-151.

Graph 3. The GCC Economies in the Regional Origin of Remittances to Pakistan in the Fiscal Years from 1999 to 2012 (In Million \$)



Source: Figure created by the author, June 2013, on the basis of statistics in Udo Kock and Yan Sun, "Remittances in Pakistan: why haven't they gone up and why aren't they coming down?," *International Monetary Fund Working Paper №WP-11-200*, 2011, 4-6, <http://www.imf.org/external/pubs/ft/wp/2011/wp11200.pdf>; Rashid Amjad, G.M. Arif and M. Irfan, "Explaining the ten-fold increase in remittances to Pakistan, 2001-2012," *International Growth Centre Working Paper 12/0391*, 2011, 8-12; Ibrahim Sirkeci, Jeffrey H. Cohen, and Dilip Ratha, *Migration and Remittances during the Global Financial Crisis and Beyond* (Washington, DC: The World Bank, and the International Bank for Reconstruction and Development, 2012), 382; and the portal of State Bank of Pakistan–Statistics Department, www.sbp.org.pk/ecodata/homeremit.pdf

In 2012, a recorded \$13.18 billion in remittances, representing 5 to 7 percent of the country's GDP, were sent to Pakistan. Of this, 46 percent came from Saudi Arabia, 36 percent from the UAE (more specifically 18 percent from Dubai and 17 percent from Abu Dhabi), 7 percent from Kuwait, and 11 percent from the three other GCC states.¹⁶ The remittance economy has created a substantial network of both official and informal financial transfer channels and services between the GCC and Pakistan.¹⁷

The official number of Pakistani expatriates in the region make up for only about two percent of Pakistan's total population, yet their remittances to the country constitute an important financial lifeline for those in their places and areas of origin, much more than international aid does. As is the case in other receiving societies, the impact of remittance flows is mixed and depends in large part on the social psychology of the individuals and communities involved. They are certainly productively invested and help to ease poverty. Indeed, the remittances from the GCC and elsewhere have played a considerable

role in alleviating and helping Pakistanis cope with the economic setbacks brought about by the earthquake in north-west in late 2005, the military offensive in Swat in spring 2009, and the floods in summer 2010.¹⁸ However, remittances generally speaking can also cause handout dependency, consumerism, as well as deindustrialization and agricultural decline.¹⁹

The Political Economy of Hearts and Minds

A channel of interaction and an economic tie that is specifically embedded in the confessional geography shared between Pakistan, Saudi Arabia, and the Ummah in general, is what one could call the "pilgrimage industry" to Mecca and Medina. The number of pilgrims (or at least pilgrimage-related entries) between 2000 and 2012 is estimated at more than 30 million, of which more than two-thirds came from outside of Saudi Arabia. The economic and cultural dimension of this is far from negligible. Saudi Arabia's direct and indirect annual

16 State Bank of Pakistan–Statistics Department, www.sbp.org.pk/ecodata/homeremit.pdf.

17 Piolet, 146-149.

18 For a case study, see Abid Q. Suleri and Kevin Savage, "Remittances in crises: A case study from Pakistan," *Overseas Development Institute Background Paper*, 2006.

19 Abdul Qayyum, Muhammad Javid, and Umaid Sharif, "Impact of remittances on economic growth and poverty: Evidence from in Pakistan," *Pakistan Institute of Development Economics Working Papers*, 2008; and Roger Ballard, "Remittances and economic development in India and Pakistan," in *Remittances: development impacts and future prospects*, ed. Samuel Munzele Maimbo and Dilip Ratha (Washington, DC: The World Bank, and the International Bank for Reconstruction and Development, 2005), 103-118.

revenue from organizing and hosting the Hajj and Umrah pilgrimages (including permits and taxes, transport, accommodation, and food) is estimated to be between \$10 and \$30 billion depending on the year and the source consulted. Indeed, pilgrimage revenues are the country's second-largest source of income after the hydrocarbon industry.²⁰ In 2012, Pakistan, with an official share of 11.7 percent of foreigners who performed the Hajj that year, was the second-largest source of pilgrims to Mecca and Medina after Egypt with 14.9 percent. According to official Hajj statistics, Pakistan also occupied second place in 2011 and has been consistently a major sender of pilgrims for many years.²¹

The confessional ties also raise the controversial issue of Saudi Arabia's and Kuwait's "ideological exports" to Pakistan, which are conducted through private foundations as well as quasi-governmental structures, and their role in the growth of a Wahhabi and especially Salafi Sunni societal segment there.²² In Pakistan as elsewhere, social identities traditionally dominated by more syncretic Sufi beliefs and practices have come under pressure because of the impact of globalization, social mobility, migration, urbanization, as well as the discrediting of some Sufi elites on account of their close association with unpopular political elites. This has created ground, in certain sectors of Pakistani society, for more orthodox and puritanical interpretations and practices of Islam. One of these is Salafism, to which an estimated 5 to 7 percent of the country's Islamic followers are now believed to adhere to or be influenced by.

Since 1978-81, Saudi Arabia, in particular, has been funding the construction of mosques—including the enormous landmark Faisal mosque in Islamabad—and various forms of religious education as well as some religious movements and political parties. The latter include the Salafi Ahl-i-Hadith ("People of the tradition of the Prophet") movement and its political wing. These ties are not recent and can be traced back to 1927, when Ahl-i-Hadith representatives from what is now Pakistan travelled to the Kingdom of Nejd and Hejaz, the predecessor state of Saudi Arabia. More steady practical support from Saudi Arabia and, to a lesser extent, Kuwait, to the Ahl-i-Hadith

and similar political-religious organizations in Pakistan started after the Arab-Israeli war of 1973 and especially in the wake of Pakistan's foreign policy turn to the Persian-Arabian Gulf after 1980.²³ The Ahl-i-Hadith nowadays runs or controls 17 social and political organizations and an estimated 400 Quranic schools in the country.

The above represents only 4 percent of the registered total of such schools. However, compared to the 47 Quranic schools affiliated to the movement in 1971 and 161 in 1988, it has clearly been a growing niche.²⁴ The population of Pakistan can also watch religious satellite channels from the Persian-Arabian Gulf, some of which broadcast Salafi and Wahhabi content. In general, Salafism is more present in urban centers and parts of the country that are relatively more affluent because, among other reasons, they are subject to a strong influx of remittances from the GCC region. Although much of the Salafi Ahl-i-Hadith movement is not involved in armed struggle, the existence of militant groups inspired by Salafism and the fact that these consider Sufis and the large Shi'ite minority to be heretics, mean that their presence is perceived to be a societal threat by various opinion leaders, some governmental elites and competing Islamic groups.

Labor migration and confessional interactions through pilgrimages ensure the presence of the GCC region, and of Saudi Arabia in particular, in the consciousness of the Pakistani population. Despite the often harsh and exploitative working conditions and social segregation to which labor migrants are exposed and despite the decadent lifestyles of part of the region's elites and of the wealthy expatriates who have settled in Dubai and other hubs, opinion in Pakistan generally seems to hold a favorable view of Saudi Arabia especially. Although opinion polls only suggest one aspect of the reality, according to a 2008 survey no less than 97 percent of respondents were to some extent favorably disposed to Saudi Arabia. For Iran this figure was 67 percent while the non-GCC Arab countries included in the questionnaire lagged far behind with an "approval" rate of between 33 and 39 percent.

By contrast, the U.S. was rated favorably by only 19 percent of respondents.²⁵ Of course, this does not

20 For more on the political economy of the Hajj and Umrah, see Ignace Leverrier, "L'Arabie saoudite, le pèlerinage et l'Iran," *Cahiers d'études sur le Méditerranée orientale et le monde turco-iranien* 137, no. 22 (1996): 2-22; and Robert Bianchi, *Guests of God: pilgrimage and politics in the Islamic world* (Oxford: Oxford University Press, 2008).

21 Central Department of Statistics and Information of the Kingdom of Saudi Arabia (2012), *أهم مؤشرات للحصص الفعلاي عام 1433 هـ*, www.cdsi.gov.sa/2010-10-02-08-30-17/260-hajj1433 and the more comprehensive report at www.cdsi.gov.sa/pdf/hajj1433-results.pdf. Note that by-country statistics on the number of people who performed the Hajj or the Umrah can differ according to the source.

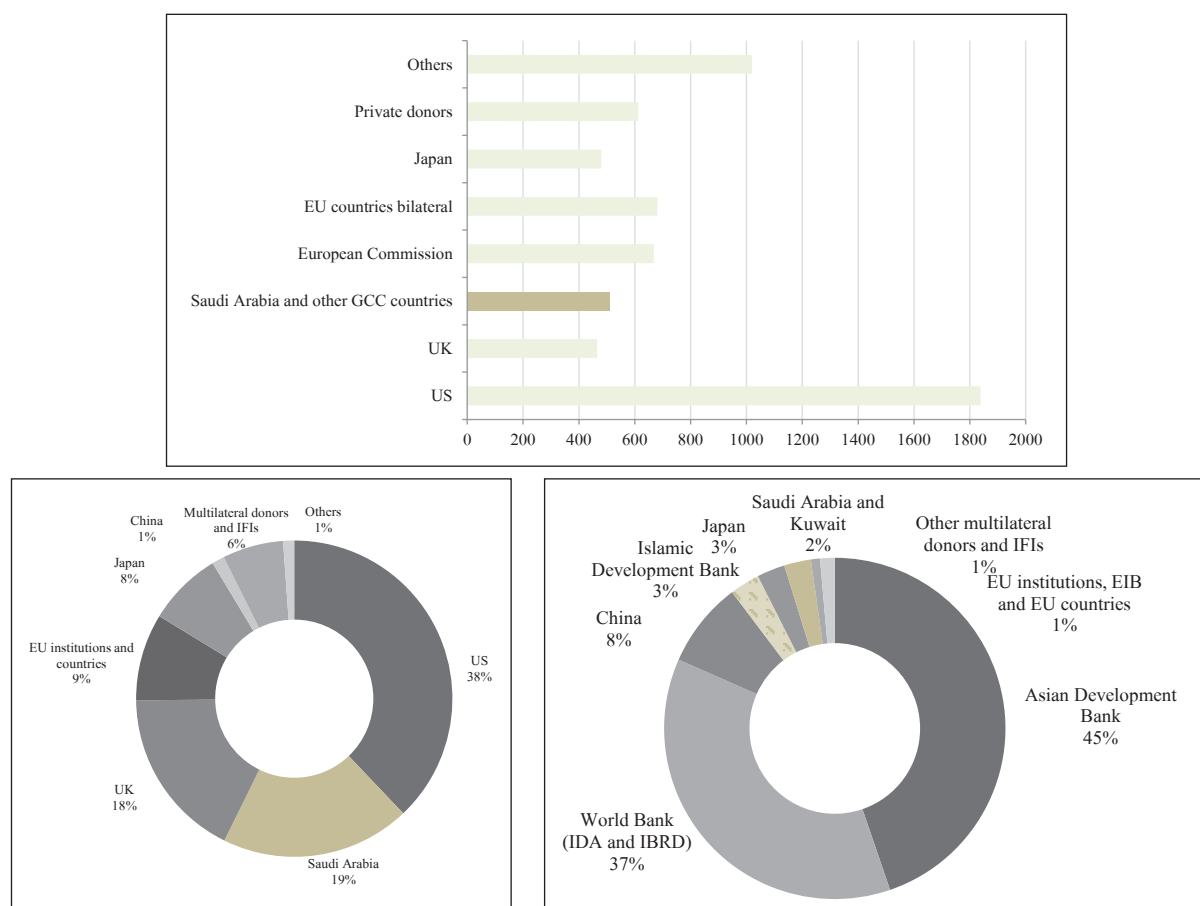
22 For a discussion of the differences and similarities between Wahhabism and Salafism, see Trevor Stanley, "Understanding the origins of Wahhabism and Salafism," *Terrorism Monitor Volume* 3, no. 14. The Jamestown Foundation, 2005.

23 Yoginder Sikkand, "Stoking the flames: inter-Muslim rivalry in India and the Saudi connection," *Comparative Studies of South Asia, Africa and the Middle East* 27, no. 1 (2007): 97-99; and Ayesha Siddiqa, "The new frontiers: militancy and radicalism in Punjab," *Centre for International and Strategic Analysis Report* 2, 2013, 7-8.

24 Qaneel Siddique, "Weapons of mass instructions? A preliminary exploration of the link between madrassas in Pakistan and militancy," *Forsvarets forskningsinstitutt-Norwegian Defense Research Establishment Report* No. 2008/02326, 2009, 13.

25 "Unfavorable views on Jews and Muslims on the rise in Europe," The Pew Global Attitudes Project, 2008, 32-36.

Graph 4. The GCC Countries among Donors of Humanitarian Aid to Pakistan between 1999 and 2013 (In Million \$), and among Providers of Development Grants and Loans between 2004 and 2009 (In % Share)



Source: Figures created by the author, June 2013, on the basis of statistics in the OCHA financial Tracking System database, fts.ocha.org, and "Aid to Pakistan by the numbers," Centre for Global Development, CGDEV portal, www.cgdev.org/page/aid-pakistan-numbers and, on the same portal, "Pakistan aid facts," www.cgdev.org/blog/pakistan-aid-facts

necessarily reflect a popular endorsement of the GCC region's political regimes and power elites, but rather reflects positive associations with employment and income opportunities, and with Mecca, Medina, and the Hajj. This author's anecdotal evidence and impressions gathered in Pakistan suggest much more mixed popular feelings, which vary according to personal experiences and the vicissitudes of international affairs.²⁶

Also worthy of note is the provision of humanitarian aid to and development cooperation from the GCC region with Pakistan. Here again, the most prominent interaction is that between Pakistan and Saudi Arabia and, to a lesser extent, the UAE and Kuwait. Saudi Arabia's semi-governmental aid body al-Igata, which is better known as the International Islamic Relief Organization, has been

operating in Pakistan almost continuously since 1982.²⁷ Kuwait's International Islamic Charity Organization and various semi-governmental and private charities from the UAE and Qatar have also been present in the country since 1989-99. As Graph 4 illustrates, in terms of registered humanitarian assistance between 1999 and 2013, Saudi Arabia and the other GCC countries formed the fourth-largest donor sphere to Pakistan after the U.S., the EU (both as an institution and through its individual member states), and private donors, who include individuals, organizations, and companies in the affected country and beyond.

In a number of specific crises like the floods in the summer of 2010, the contributions of Saudi Arabia were much more prominent. Contributing \$242.2 million in

26 The role of Saudi Arabia and Qatar in quelling or hijacking some of the recent Arab revolts, as well as the role of companies and investors from GCC economies in land grabbing practices, certainly affected popular views in some sectors of society, not least among the sizeable Shi'ite minority and in the affected agricultural areas. On the other hand, the publication in *Armed Forces Journal* and more recently in *The New York Times Sunday Review* of redrawn maps of the wider Middle East convinced some vocal opinion leaders in Pakistan that both their country and Saudi Arabia form targets in a hidden agenda of steered balkanization.

27 Observatoire humanitaire, www.observatoire-humanitaire.org.

effectively disbursed aid, it was the third-largest donor after the U.S. with \$631.7 million; \$247.5 million came from private donors. However, if we add the \$96 million from the five other GCC countries—of which \$77 million came from the UAE and \$9.25 million from Kuwait—the GCC as a bloc provided a total of \$338.2 million in relief aid during the 2010 floods.²⁸ If one looks at Graph 4 again, we see that in terms of development grants that were allocated to Pakistan in the period between 2004 and 2009, Saudi Arabia was Pakistan's second-largest donor after the U.S. The grants have been especially directed at post-disaster and post-conflict reconstruction and at social and economic infrastructure development. Often they are intended to facilitate later economic investment.²⁹ They are either disbursed bilaterally or through the Islamic Development Bank of which Saudi Arabia is by far the largest shareholder. Saudi Arabia and other GCC states also contribute to the activities of specialized UN organizations in Pakistan.

GCC development aid to Pakistan, in which besides Saudi Arabia the UAE and Kuwait also play a prominent role, is erratic and determined to a large extent by major events such as the earthquake in north-western Pakistan, the Swat offensive, the floods of 2010, and the energy crisis.³⁰ The major sources of loans to Pakistan are not the GCC but international financial institutions and development banks in which the U.S. plays a key role or at least wields considerable influence. The GCC's share here does not exceed 5 percent, the input of the Islamic Development Bank included. The "classical" international financial institutions' and development banks' activities in Pakistan have strongly increased since the country became a frontline state in the so-called war on terror and in the wake of various natural disasters and the energy crisis the country has been coping with since 2007.³¹ Critics however consider such a "buy-off" of Pakistan's establishment into cooperation with extraneous geopolitical agendas and the increasing debt and adverse loan conditions to be nefarious for the country and its society. Last but not least, remittances, as previously examined, can be considered as an alternative channel of aid, and have a much more

direct impact at the grassroots level in terms of coping and investment capacity than official development assistance does.

Concluding Remarks

The interaction between the Pakistan and the Gulf Cooperation Council countries is multi-faceted and occurs along a geopolitical and social grassroots interface on account of the confessional dimension and labor migration. The question is whether this South-South relationship is one of interdependency, or one between a core of high-income oil-producing GCC countries and a periphery formed by the more agricultural, lower middle-income country of Pakistan? At first glance, Pakistan would appear to be a source of 'mercenaries', cheap labor, and cultivable land for the GCC countries. This is also how some opinion makers in Pakistan's media, intelligentsia and politics describe it. The financial aid, advantageous oil deliveries, and remittances from Saudi Arabia and other GCC countries definitely are of enormous importance for Pakistan—if not for its survival at least in order for it to function. It means however that it is also vulnerable to economic downturn and political unrest in the Persian-Arabian Gulf. The power elites of Pakistan thus have a vested interest in helping to ensure the continuity and stability of the Saudi regime as well as the regimes of the other GCC countries.

Accordingly, Pakistan is neither completely nor typically peripheral in this regard. Indeed, it possesses greater military strength and experience as well as has more diverse industries than the GCC countries. It also produces military hardware and provides defense expertise to Saudi Arabia and other GCC states, as well as has the distinction of being the world's only Islamic nuclear power so far. Its potential may well be stunted due to setbacks such as natural disasters, and to political factors, but it is not a fully-fledged or completely passive periphery. Rather what can be observed is an interaction between semi-peripheries, an interaction that is defined

28 Note that these statistics only reflect reported official aid. After the earthquake of late 2005 which particularly affected the area of Muzaffarabad and the North-West Frontier Province, the GCC countries' official contributions were much more limited, though they are believed to be substantially higher if one counts informal aid that was disbursed by and through non-governmental channels. OCHA financial Tracking System database, fts.ocha.org. See also "Middle East: Gulf aid to Pakistan update," *IRIN Humanitarian News and Analysis*, www.irinnews.org/report/90297/mid-dle-east-gulf-aid-to-pakistan-update.

29 For example, part of the land that is being acquired for agro-industrial investment by firms and groups from Saudi Arabia is purchased from a global \$556 million agricultural development line from the Saudi Fund for Development.

30 The picture is not clear since much development aid from Saudi Arabia and other GCC countries is not reported as such and is also tied to economic investments from the GCC in the country. See Eva Baker, Mike Tierney, and Michael Weissberger, "A slow tsunami of assistance?," *The First Tranche*, 2010, modified in 2012, *AidData blog*, blog.aiddata.org/2010_08_01_archive.html.

31 Note that Saudi Arabia gives in-kind loans to Pakistan to help it cope with energy shortages in the form of oil supplies and deferred payments. It did so, for example, when Pakistan suffered economic sanctions due to its nuclear program between 1998 and 2002, and again since the general elections of 2013 when a coalition led by Nawaz Sharif's Pakistan Muslim League perceived to be more friendly was elected to power. "Aid to Pakistan by the numbers," Centre for Global Development, CGDEV, www.cgdev.org/page/aid-pakistan-numbers; and, "Pakistan aid facts," www.cgdev.org/blog/pakistan-aid-facts.

and carried by a confluence of historical factors, security paradigms or perceived paradigms, and by economic geography. Once more, much revolves around the ties between Pakistan and Saudi Arabia. Unlike the UAE, with whom ties are of a more economic nature, those with the Saudi kingdom are highly political and ideological.

Pakistan along with the rulers of Saudi Arabia and the other GCC states have also been longstanding U.S. allies, and, thus, beneficiaries of considerable strategic dividends, in the containment of Soviet as well as Baathist socialism until 1991, against Iran since 1979, and more recently, since 2001, in the fight against the much more vague and ubiquitous 'terrorist threat.' Pakistan is also a major recipient of aid from both the U.S. and from the international financial institutions that it controls. All this raises the ire

of a not insubstantial number of people, both in Pakistan and in the Persian-Arabian Gulf, who feel that this serves a neo-imperial agenda of control over the Ummah, its sacred sites and its resources, and one that is against the very Islamic character and destiny of both Pakistan and Saudi Arabia.³² The channels and networks that exist between Pakistan and the Persian-Arabian Gulf, are also used by groups and individuals who contest the present world order and the role of their incumbent political and economic elites therein. The way and nature of changes that might sooner or later occur in the world order as well as in Saudi Arabia's and Pakistan's ruling elites will determine whether the current axis of complementarity that exists between the two countries might yet become the backbone of some sort of "Islamic Union."

32 Note that Pakistan, both as a state and a society, is not as hostile to Iran as Saudi Arabia, the other GCC states, and the U.S. are. Some critics even consider the close ties between the GCC and Pakistan to be a way to further anchor the country in the US and wider NATO orbit by proxy, so as to further roll back its independence. For details on the various forms of GCC-NATO cooperation, in particular against Iran, Saddam's Iraq and Gadhafi's Libya, see Mahdi D. Nazemroaya, *The Globalization of NATO. Military Doctrine of Global Warfare* (Atlanta: Clarity Press, 2012), 154-160. For more on the ties between the GCC region's elites and the Anglo-Saxon powers in the twentieth century, see Olivier Roy, *Le croissant et le chaos* (Paris: Hachette, 2007).

When Tehran Looks at Its Regional Environment. Iranian Think Tanks and Their Analysis of Central Asia

Clément Therme¹ (2012)

At a time when the American and European media are focused on the Iranian narrative regarding the “Arab Spring” in general and the Syrian crisis in particular, it is noteworthy to examine Tehran’s attitude toward Central Asia. In this case, no official public stance has been taken by Iran concerning an “Islamic revival” (*Bidari-e eslam*) and, more broadly, the revolutionary discourse does not have the same weight in Iran’s foreign policy in regard to Central Asia compared to the United States and the Middle East. In Central Asia, the Islamic Republic plays the role of a status quo power,² and it is in favor of keeping borders unchanged and finding a juridical solution based on Soviet-era treaties to define a new legal regime for the Caspian Sea. Despite significant differences in Iran’s regional policies, there are very few studies that deal with the role of Iranian think tanks in shaping Tehran’s foreign policy. This dearth in literature regarding what is a potentially important factor explaining the Islamic Republic’s behavior on the international scene deserves to be filled in. In this article, I limit the scope of my analysis to examine Iranian think tanks’ production on Central Asia.

Producing Expertise on International Affairs in Iran

None of the main Iranian think tanks are fully independent from the state. As in any theocratic political system, the office of the supreme religious leader remains the main center of power regarding foreign policy decisions. The religious dimension of the Iranian state is strengthened by the defense of the main ideological tenet of the Islamic revolution, namely the cultural rejection of the West. This explains why Iranian scholars working for think tanks and universities have to take into account red

lines imposed by the Islamic Republic. The centrality of Khomeini’s writings—including his speeches and written works outlining his vision of the world—in designing present-day Iran diplomacy is still crucial. More than 33 years after the Islamic Republic’s founding, the Institute for Compilation and Publication of the Works of Imam Khomeini is still a key institution in legitimizing ideologically the international behavior of the republic.³ This was for instance the case with Khomeini’s letter to Mikhail Gorbachev, which is often quoted by the Iranian political establishment as an example of a revolutionary anticipated vision of the fall of Communism and a sign of the dawn of a new Islamic world order.⁴

Even if the ideological hostility toward the West is part of the identity of the Islamic Republic, differences between the reformist (*eslahtalaban*) and conservative (*osulgarayan*) factions do have an impact on both the intellectual production of Iranian think tanks and their relationships with their Western counterparts. After the rise of Mahmoud Ahmadinejad to the presidency in 2005, relations between Western and Iranian think tanks were cut off. As a result, contacts between Iranian and Western think tanks, and even with independent scholars from the West or journalists and diplomats, became very risky: several Iranian research fellows were jailed for being in contact with Western think tanks or representatives of governments and universities. To counter what Iranian officials perceived as a Western view of the world, the Islamic Republic invested heavily in international broadcasting. It launched, for instance, Press TV, a channel which allows Iranian officials to present their views regarding international affairs.⁵

Discussing Iran’s foreign policy is often shaped by the issue of differentiating between Tehran’s regional policy and international positioning. On the one hand, some analysts advance the idea that Iranian regional policy is based on the defence of pragmatic interests and not on revolutionary ideals. According to this view, Tehran’s

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2 Shireen T. Hunter, *Iran’s Foreign Policy in the Post-Soviet Era. Resisting the New International Order* (Santa Barbara: Praeger, 2010), 174.

3 See for instance, *Imam Khomeini on Exportation of Revolution* (Tehran: International Affairs Department, The Institute for Compilation and Publication of the Works of Imam Khomeini, 2001), and *Imam Khomeini and the International System. A Collection of Articles* (Tehran: International Affairs Department, The Institute for Compilation and Publication of the Works of Imam Khomeini, 2006).

4 See also the conferences organized by IPIS, “Third International Conference of Imam Khomeini and Foreign Policy: Ethics in International Relations” in March 2009; and “Fourth International Conference on Imam Khomeini and Foreign Policy” in June 2010.

5 Regarding the media strategy of the Islamic Republic and its will to promote an image of a moderate Islamic country, see Pierre Pahlavi, “Understanding Iran’s Media Diplomacy,” *Israel Journal of Foreign Affairs* 6, no. 2 (2012): 21–33.

objectives in Central Asia are mainly to preserve stability, to strengthen economic cooperation with the post-Soviet independent states, and to emerge as a major regional power.⁶ Consequently, pragmatic diplomacy is designed according to a pattern of forging cooperative regional relations in order to reduce international isolation.⁷ On the other hand, several other analysts highlight Iran's revolutionary dimension and its anti-Western ideology as the main factor explaining its behavior.⁸ They point to what they call Tehran's "aggressive policies" that use the territories of the Central Asian states "to wage spy wars, and exacerbate regional tensions."⁹ Such a perspective insists on the confrontational dimension of Iran's foreign policy, which is seen as resulting in the same antagonizing behavior when dealing with neighbouring countries.¹⁰

One scholar who introduced himself as a "critic" of the Ahmadinejad administration, Seyyed Mohammad Marandi, stated that:

Western governments and politicians should be under no illusion: the vast majority of Iranians see the Islamic Republic of Iran as a legitimate form of government and they will support it as they did a few days ago [on the 31st anniversary of the Islamic revolution in 2010]. They should realize that many of the so-called Iran experts know little about Iran, some have an agenda, some have spent very little time in Iran, some don't even speak Farsi, but have the audacity to write articles and books about the country like the Orientalists of old. Also, their diplomats in Tehran are largely surrounded by a small group of like-minded Iranians who do not reflect or even understand the beliefs of the majority of Iranians.¹¹

Iranian Think Tanks and Their Ideological Orientations

Since Ahmadinejad's rise to power, the *Majles* Research Center has been quite influential in reinforcing the diplomatic doctrine as defined by the Office of the Supreme Leader. The Revolutionary Guards have organized their own desks to study the situation in neighboring countries,

as well as relations with the United States, Europe, and the Middle East; no information leaks from them, however, making analysis difficult. The Ministry of Foreign Affairs also has at its disposal several public offices, which can be classified as think tanks, working on foreign policy and the forecasting of world trends.

The main Iranian think tank dealing with foreign policy issues is the Institute for Political and International Studies (IPIS), founded in 1983 under the authority of the Deputy Foreign Minister for Education and Research. IPIS objectives are to encourage research on Iran's foreign policy and studies of the main international issues affecting the country and the Islamic world globally. To pursue these goals, the Institute employs around one hundred research fellows, experts, and diplomats.¹²

In 2006, Manouchehr Mohammadi, Deputy Foreign Minister for Education and Research in charge of monitoring IPIS activities, explained his view on how a think tank should be managed in light of its objective of enlightening the decision-makers conducting foreign policy:

A think tank should have the ability of defining a common position on the main international issues. This shared position is natural. Indeed, if one conducts the study in a truly scientific manner, the research outcome of the experts should be similar. We should arrive at a community of views. This is what states are looking for. If every research fellow draws its own conclusion, there will be no effect on the decision-making process.¹³

This point of view outlines the intellectual *dirigisme* at work inside IPIS. All critical opinions are refuted in advance as "non-scientific" or as points of view that weaken and obscure the intellectual identity of the think tank.

The quality of research is directly connected with the routine contention of power between the reformist, ideological conservative, and pragmatic conservative factions. During the Rafsanjani and Khatami presidencies (1997–2005), IPIS opened up progressively to intellectual

6 In the conception of Iranian foreign policy, Iran's willingness to become the main regional power is to be achieved through regional multilateralism. Indeed, "multilateralism also reflects Iran's beliefs in its own geographical centrality for extra-regional actors interested in access to Central Asia and the Caucasus." Mohiaddin Mesbahi, "Iran and Central Asia: Paradigm and Policy," *Central Asian Survey* 23, no. 2 (2004): 127.

7 See Edmund Herzig, *Iran and the Former Soviet South* (London: The Royal Institute of International Affairs, 1995), 13.

8 Ray Takeyh explains that the revolutionary continuity in Iranian foreign policy found its roots in the politicized interpretation of Shia Islam: "Revolutionary regimes usually change when their ardent supporters grow disillusioned and abandon the faith. It is, after all, much easier to be an ex-Marxist than an ex-Shiite. In one instance, renouncing one's faith is political defection; in the other, apostasy." Ray Takeyh, "All the Ayatollah's Men," *The National Interest*, August 22, 2012, <http://nationalinterest.org/article/all-the-ayatollahs-men-7344>.

9 Richard Weitz, "Iran's Self-Defeating Regional Strategy," *Central Asia-Caucasus Analyst*, March 21, 2012, <http://cacianalyst.org/?q=node/5738>.

10 This analysis points out Tehran's dependency on Russia and China. According to this view, Iran is almost a "vassal state" of Beijing and Moscow. Assad Homayoun and Gregory Copley, "Iran and its neighbors: Caught in a strategic trap of their own making," *WorldTribune.com*, July 19, 2012, <http://www.worldnewtribune.com/2012/07/19/iran-and-its-neighbors-caught-in-a-strategic-trap-of-their-own-making/>.

11 "Q&A: Seyed Mohammad Marandi: Green Movement Defeated," *insideIRAN.org*, February 15, 2010, <http://www.insideiran.org/news/qa-seyed-mohammad-marandi-green-movement-defeated/>.

12 According to the presentation of the Institute in *Siasat-e khareji XVI* (2002). The Institute's main objectives are also listed on the English version of the website, <http://www.ipis.ir/Pageltem-359.aspx>.

13 Personal interview with Manouchehr Mohammadi, Vice-Minister of Foreign Affairs of the Islamic Republic of Iran, French Institute of International Relations (IFRI), Paris, September 2006.

exchanges with the West in general and European countries in particular. For instance, the Italian ambassador to Iran (2003–8), Roberto Toscano, participated in conferences jointly organized by IPIS and the Landau Network-Centro Volta, an Italian academic network.¹⁴ However, this opening to scholars and diplomats from European countries ended in 2006, not only because of a change in IPIS management after Ahmadinejad's rise to power, but also after the organization by IPIS of the 'Holocaust conference.'¹⁵ Consequently, most Western research institutions and think tanks decided to suspend their relations with IPIS. In a joint declaration following Tehran's conference on the Shoah, several European institutes and foundations stated that "through its complicity with the deniers of the absolute Evil that was the Holocaust [sic], IPIS has now forfeited its status as an 'interlocuteur valable', as an acceptable partner."¹⁶

This refusal to cooperate with the main Iranian think tank provoked in-fighting between political factions at the highest level of the Islamic state. Mahmud Ahmadinejad aimed to preserve IPIS's dominant role by stopping all attempts at cooperation between European research institutes and IPIS's competitors. Specifically targeted, the Ravand Institute for Economic and International Studies directed by Seyyed Mohammad Hossein Adeli¹⁷ had to cancel a conference project with the European Union Institute for Security Studies (EUISS), an agency of the European Union based in Paris. In December 2008, on the eve of the conference gathering, the Iranian Ministry of Foreign Affairs failed to issue visas for European scholars. In so doing, Iranian authorities excluded the possibility of a think tank affiliated with the reformist and Rafsanjani factions organizing a conference aimed at fostering dialogue between European and Iranian scholars.¹⁸

Founded in 2005, the Ravand Institute for Economic and International Studies is a research center which belongs to the reformist faction. Consequently, since Ahmadinejad's presidency, it has become an important place for Iranian internal opponents and Western diplomats and business

representatives to debate international issues. The Ravand Institute promotes a positive and desideologized image of Iran through seemingly contradictory debates regarding international affairs and economic issues. Both the quality of intellectual production and the high level of experts have placed this Institute as the main center of encounters between foreigners based in Iran and the most pragmatic segment of the Iranian political establishment.

Another key institution is the Center for Strategic Research, which was founded in 1989 in order "to carry out strategic studies in various international, political, economic, legal, cultural, and social fields."¹⁹ The Center is set up for the purpose of advising the political elite in general and the Office of the Supreme Leader in particular. Another of its missions is in line with the duties of the Expediency Council: "[it] is to study and research those issues which are among the duties of the Expediency Council according to law (including drawing up large-scale policies of the system, providing consultation services to the Leader, possible revision of the constitution, presenting solutions for large-scale problems, arbitration with regard to differences between legal entities, etc.). Since the Expediency Council formulates the general strategy of the Islamic system, the research activities of the Centre are mainly of a strategic nature."²⁰

The Center was placed under the supervision of the presidency until 1997, thereafter coming under the Expediency Council, which, since 1989, Rafsanjani has been the president of. This allows his political faction, the *kargozaran*, to use the Center to challenge Ahmadinejad's policies and to disseminate Rafsanjani's opinion in the domestic media, such as the need for dialogue with Western countries and adopting a critical position regarding Ahmadinejad's intention to build a strategic partnership with Russia. Since 1992, Hassan Rouhani, a former general secretary of the Supreme Council for National Security (1989–2005), has been at the head of the Center. A close ally of Rafsanjani, he was in charge of nuclear negotiations during the period 2003–5²¹ and has

14 See "Round Table on *Iran's Foreign Policy: Regional Issues and Relation with Europe*," Tehran: IPIS, January 13, 2004.

15 See the letter written by M. Mousavi to the Istituto Affari Internazionali of Roma. Available at: <http://www.affarinternazionali.it/Documenti/Comments%20on%20the%20IPIS,%20191.01.07.pdf>.

16 See the text of the declaration on the website of the French think tank IRIS, <http://www.iris-france.org/docs/pdf/communiqués/2006-12-19-ipis.pdf>.

17 Economist, former governor of the Central Bank of Iran (1989–1994), former Deputy Foreign Minister for Economic Affairs (1999–2004), and former ambassador to Japan, Canada, and the United Kingdom.

18 The letter announcing the cancellation of this conference was available on Ravand Institute's website until November, 2010, <http://www.ravandinstitute.com/events/conference/detail.php?ID=1391>.

19 See the Center's website <http://www.csr.ir/Center.aspx?lng=en&abtid=00>.

20 Ibid.

21 In an interview, Ruhani stated that "We had to choose between a bicycle, Peykan [an Iranian car, though no longer in production, which is notoriously unreliable], and a Mercedes Benz. The decision was made not to ride in the Mercedes, so we stayed with the Peykan and the bicycle." According to his view, the Mercedes means concluding an agreement with the U.S. in the 2000s; the Peykan means pursuing the negotiating process with the EU. See "Ravayat hosein ruhani az payam-e jorj bush be iran va pasokh ke arane shod/baiad bein-e 'benz, peykan va dotcharkhe yeki-ra baraye mozakere entekhab mikonim," *Khabaronline.ir*, May 9, 2012 (Ordibehesht 20, 1391), <http://khabaronline.ir/detail/212390/politics/nuclear>. See also "Goftegu-ye majale mehrname ba doktor hosein ruhani," Center for Strategic Studies, May 7, 2012 (Ordibehesht 13, 1391), <http://www.csr.ir/Center.aspx?lng=fa&subid=-1&cntid=2497>.

had numerous high-level political responsibilities, such as five terms as a deputy of the *majles*.²² The intellectual production of the Center follows the main tenets of the ideology of developmentalism advocated by Rafsanjani: that is, the defense of pragmatism in implementing foreign policy and in economic affairs in order to avoid any political and institutional democratization agenda. In this regard, Rouhani also opposed the so-called militarization of political activities in Iran following guidelines provided by Ayatollah Khomeini.²³

In 2007, Seyyed Mohammad Sadegh Kharazi launched the “Iran Diplomacy” website (www.irdiplomacy.ir) dedicated to publishing articles dealing with foreign policy issues. The nephew of Kamal Kharazi, the Minister for Foreign Affairs during President Khatami’s two terms, Sadegh Kharazi is also the brother-in-law of the son of the Supreme Leader, Ali Khamenei, and the former Iranian ambassador to France (2002–5). A member of the reformist faction, he is one of the main critics of Ahmadinejad’s strategy of rapprochement with Russia.²⁴ As a manager of the website, he introduces his media outlet as “an independent institution, which acts within the framework of the Islamic Republic of Iran’s regulations, its expenses being supplied through website advertisements and people’s aid.”²⁵ The website aims to defend “ideas of a group of realist, moderate, Iranian intellectuals and tries to portray an accurate and correct image of contemporary Iran to the world instead of selective, biased images.”²⁶

Even if most Iranian research centers linked to the reformist or the pragmatic conservative factions introduce themselves as “independent,” it is worth noting that their intellectual autonomy is relative given their inability to go beyond formal opposition (semi-opposition) to the government. Despite these limits, the aforementioned research institutes play a critical role in the internal debate on foreign policy issues. This is particularly true of the reformist institutions and media, which use their expertise to initiate debates on controversial issues, such as the Iranian position on the Caspian Sea’s legal status.

More specialized research institutions should also be mentioned here, especially those dealing with regional issues or energy questions such as the International Institute for Caspian Studies (IICS),²⁷ which promotes the official Iranian position regarding the Caspian Sea. The scope of research remains largely focused on energy issues and on the potential role of Iran as a transit country for Caspian Sea oil and gas resources. The intellectual expertise is largely desideologized and designed to enhance Iranian regional interests. Finally, the Center for Scientific Research and Middle East Strategic Studies,²⁸ directed by Kayhan Barzegar and before him Mehdi Zakerian,²⁹ offers networking opportunities for Iranian and Western researchers working on the Middle East. Informal diplomacy even comprises one of the main roles of this center, organizing, as it does, conferences where diplomats, representatives of the private sector, and scholars can discuss foreign policy and the nuclear issue.

All these institutions contribute at different levels to building international affairs as an academic field in Iran. Even if their analysis does not go beyond the Islamic Republic’s red lines, it is worth reading their intellectual production to understand the decision-making process of Iranian diplomacy.

Central Asia: A Research Terra Incognita

During the 1980s, Central Asia constituted a neighboring region where Iran could not actively conduct its foreign policy.³⁰ At that time, the Islamic Republic’s foreign policy was focused on the Iraq war (1980–88) and the Afghan civil war and Soviet intervention (1980–89). Relations with the Soviet Union were based on ideological opposition toward the superpowers, who were perceived as “quintessential oppressors, seeking to impose themselves on the rest of the world.”³¹ Even if during the Cold War the opposition toward the Soviet regime was less rigid than the rejection of the United States, the Islamic Republic’s diplomacy privileged a North/South rather than an East/West view of the world.³²

22 For more details, see his biography on the website of the Center for Strategic Research, <http://www.csr.ir/departments.aspx?lng=en&abtId=09&&depId=123&&semid=283>.

23 Rouhani stated that “The Imam further noted that the armed forces should not be involved in the activities of political parties.” See “We Must Care for the World Public Opinion,” Center for Strategic Studies, October 6, 2009, <http://www.csr.ir/Center.aspx?lng=en&subid=-1&cntid=2006>.

24 Sadeq Kharazi, “Hozour-e rusie dar mozakerat eshtebah bud,” *Khabaronline.ir*, July 21, 2012, <http://www.khabaronline.ir/detail/228411/weblog/kharazi>.

25 See the website <http://irdiplomacy.ir/?Lang=en&Page=36>.

26 Ibid.

27 See the website <http://www.caspianstudies.com/about.htm>.

28 *Markaze Pajhooheshhaay-e Elmi va Motaale’at-e Esteraatejic-e Khavar-e mianeh*.

29 He has been teaching human rights at Azad University and he became, in 2008, president of the Iranian association for international studies.

30 On this topic, see Martha Brill Olcott, “Soviet Central Asia: Does Moscow Fear Iranian Influence?,” in *The Iranian Revolution. Its Global Impact*, ed. John L. Esposito (Miami: Florida International University Press, 1990), 205–206. During the Soviet period, Tehran was engaged in broadcasting radical Islamic propaganda to the Soviet South. See Herzog, *Iran and the Former Soviet South*, 47.

31 Shahram Chubin and Charles Tripp, *Iran and Iraq at War* (London: I.B. Tauris, 1988), 238.

32 Ibid.

Iran faced drastic domestic changes following Khomeini's death in 1989, which coincided with the end of the war with Iraq. These changes pushed the Iranian political elite to adopt a new agenda in foreign policy. President Rafsanjani decided to reassess the whole Iranian regional and international strategy and contributed to creating new think tanks and opened them to foreign cooperation. This drastic change translated into an ideological fracturing of the political elite regarding Khomeini's political legacy. The proliferation of institutions dedicated to providing analysis on foreign policy was also due to the need for adapting Khomeini's revolutionary thinking to the new world order, with the emergence of a post-Cold War international system. Rafsanjani's strategy had the dual aim of promoting *Realpolitik* regionally and a policy of détente with the United States, as well as normalizing relations with foreign institutions in the academic field.

After the fall of the Soviet Union, the Iranian political elite were euphoric at what they perceived as an Islamist ideological victory over Communism and its atheist ideology. At the same time, Iranian authorities soon became worried about Turkey's and Pakistan's advances into Central Asia, their own difficulties in building ties with the new regimes, and the United States rising role in the region. Rafsanjani's diplomacy demonstrated its ability to adapt to a post-Khomeinist environment and to develop a policy of pragmatism in regard to the new geopolitical reality on Iran's north-eastern frontier. According to Fred Halliday, a representative of the Islamic Republic defined the strategy toward the newly independent states of Central Asia as the "flower bouquet" policy (*siasat-e dast-e gol*), meaning that every political leader arriving at Tehran's airport was welcomed with a bouquet of flowers.³³

The desideologization of Iranian foreign policy was indeed especially visible in the former Soviet space. This realism was the result of the Islamic Republic's diplomatic embarrassment in a post-Cold War international system that was suddenly dominated by the American superpower. As a result, Tehran reassessed numerous ideological tenets, more particularly, the political will to export the Islamic revolution. Its newly founded diplomatic pragmatism reassured Moscow, which was afraid of seeing Tehran reactivate its project of ideological propaganda toward the Muslim population of the former Soviet space. Therefore, Central Asia became an experimental field for Iranian diplomacy in terms of adopting a less ideologically-centered diplomacy.

As early as 1992, the Ministry of Foreign Affairs decided to create a Center for the Study of Central Asia and the Caucasus at IPIS, further launching two specialized quarterlies dealing with Central Asia and the Caucasus region, jointly published by the Center and the Office of the Deputy Foreign Minister for Research and Education. The first journal, *Faslname -ye motale'at-e asia-ye va qafqaz* (The Central Asia and Caucasus Review), offers a wide range of views on Central Asia and the Caucasus from the West, Russia, and Iran. The second review, *Amu Darya*, published in English, aims to disseminate views of Iranian and non-Iranian scholars on the two regions.³⁴

This new research interest in the post-Soviet regions was justified by two main factors: "In the aftermath of the Soviet collapse and the formation of the Commonwealth of Independent States, a systemic inquiry and study of Central Asia and the Caucasus became increasingly important. The significance of the region, chronic dearth of accurate information, and lack of general familiarity with this region, all added to the urgency of the undertaking ... It is an uncontested fact that the cultural, historical, artistic, literary, and religious commonalities linking the Iranian and Central Asians go far beyond many would tend to believe."³⁵

Iran's Central Asian Policy in Expertise Publications

If many articles and reports published by Iranian think tanks on Central Asia insist on economic cooperation, shared cultural heritage, and the Persian-language community, they tend mostly to discuss the current, geopolitical situation—that is, the importance of the Caspian Sea in the national Iranian imaginary, as well as the relationship with the powerful northern neighbor, namely Russia, are key issues that shape the considerations of Iranian experts.

Iranian experts regularly advance arguments about Iran's cultural proximity to Central Asia, and therefore tend to promote the region as a cultural, economic, and geopolitical entity. They define Iran's policy toward it as favoring "self-reliance among regional states and the exclusion of extra-regional powers (meaning the United States)."³⁶ They portray Tehran as a responsible, "peaceful," and "stabilizing"³⁷ regional power which builds good-neighbourly relations through cooperation in the energy sector, fight against terrorism, preservation of territorial integrity, and respect of state sovereignty. They also develop the conventional Iranian narrative on the country as a

33 Fred Halliday, "The empires strike back? Russia, Iran and the new republics?" *The World Today* 51 (1995): 221.

34 Ibid.

35 "Introduction. Center for the Study of Central Asia and the Caucasus," *Amu Darya. The Iranian Journal of Central Asian Studies* 4, no. 6 (2000).

36 Edmund Herzig, "Regionalism, Iran and Central Asia," *International Affairs* 80, no. 3 (2004): 505–506.

37 Mehrdad Mohsenim, "Ofog ha-ye hamkari iran-o-rusie dar asia-ye markazi va qafqaz," *Faslname -ye motale'at-e asia-ye markazi va qafqaz* 12 (1376/1997): 99–110.

victim of Western “Iranophobia” and point to the “Zionist” influence on Western states’ Central Asian policy.

Tajikistan obviously benefits from a specific focus by Iranian experts. The constructive role played by Tehran in the Tajik peace negotiations in 1995–97 is often presented as a potential model that could be applied in the South Caucasus. Assadollah Athari, a Turkish affairs expert and member of the Center for Middle East Strategic Studies, explains that “Iran enjoys both civilizational weight as well as political weight. It also has the non-interventionist and non-ideological experience in settling regional issues, one example of which was witnessed in Tajikistan.”³⁸ Beyond the exemplarity of the Iranian diplomatic mediation vis-à-vis the Tajik civil war, the Iranian narrative focuses on the encounter between the two nations (*mellat*) and the need for economic development in the poorest country of the former Soviet space.³⁹ In 2008, the launch of a Persian TV channel in collaboration with Tajikistan and Afghanistan, and the establishment of an Economic Council of the Persian-Speaking Union, reinforced the trend of promoting Iranian soft power in the “Iranian world” (*Iran zamin*). Finally, Iranian priorities in Tajikistan remain also closely linked to the Afghan situation, especially rising instability, and the need to address drug trafficking.

The legal status of the Caspian Sea is understood as the main judicial and territorial issue to be discussed in relation to Central Asia. Seen from the Iranian point of view, any deviation from the official objective of an equal share of the Sea is considered to go against Iran’s state interests.⁴⁰ Different schools can nonetheless be discerned. A first, “maximalist” group believes that Iran has a right to 50 percent of the Caspian, on the basis of the Soviet–Iranian treaties of 1921 and 1940 and the Almaty Declaration of 1991, in which the newly independent states agreed to respect the Soviet Union’s legal obligations. The second, “minimalist” group states that the Iranian share is limited to the part of the Caspian below the Astara–Hoseinqoli line, which was the “imaginary” line of demarcation during Soviet times.⁴¹ A third, “median” group judges that the best solution is the condominium regime together with a shared agreement concerning the seabed.⁴² Given the sensitivity of Iranian public opinion regarding this issue, the authorities need

to find a compromise with neighbouring states without undermining, even if symbolically, state sovereignty.⁴³

Linked to the Iranian perception of the Caspian Basin as a site of potential conflict is the issue of energy. Articles in Iranian journals denounce the U.S. unilateral sanctions against Iran and the West’s strategy of blocking every project concerning oil or gas pipelines linking Central Asia, South Caucasus, and Turkey via Iranian territory. Most Iranian experts point to Washington’s ideological policy regarding what they consider to be the natural advantages of the Iranian route to export Caspian resources to the international market.

Central Asia as a Site of Competition with NATO

Even under Rafsanjani’s policy of détente with the West, Iranian think tanks and their publications related to Central Asia remained staunchly opposed to the American policy in the Caspian region. They reacted vehemently to Washington’s strategy of preventing Iran’s access to Caspian oil and gas resources and, thus, of it becoming an alternative export route for the Central Asian states and Azerbaijan.⁴⁴ In the 2000s, the think tanks continued to use harsh diplomatic rhetoric condemning American military presence in the “Greater Middle East,” and denounced the military encirclement of its territory by the U.S. Army, especially after the intervention in Afghanistan (2001) and in Iraq (2003).

NATO involvement in the region through the Partnership for Peace is probably one of the most widely discussed topics in specialized journals published by Iranian think tanks. Many articles are published not only on NATO’s expansion strategy but also on the issue of conflicting relationships between Washington and Moscow in a post-Cold War international system. When analyzing what they perceive as a threat from NATO, Iranian scholars point out the converging interests of Moscow and Tehran in opposition to the rise of NATO’s influence in the post-Soviet space. The Iranian perception of the current situation is heavily shaped by NATO’s intervention in the Balkan crisis in the 1990s, presented as the harbinger to a broader project aimed at extending influence over the Middle East, the Caspian Sea, and Central Asia.⁴⁵

38 “Interview with Assadollah Athari: Caucasus Alliance Minus Iran Doomed,” *Irdiplomacy.ir*, September 10, 2008, <http://www.irdiplomacy.ir/en/page/2663/%60Caucasus+Alliance%E2%80%99+Minus+Iran+%60Doomed%E2%80%99.html>.

39 Hassan Ali Ahmadi Fesharaki, “Jomhuri-ye eslami-ye Iran va Tajikistan: tshalesh-ha va manafe-ye melli Iran,” *Faslname –ye motale’at-e asia-ye va qafqaz* 22 (1377/1998): 97.

40 Clément Therme, “Iran and Russia: a Tactical Entente,” in *Empires and Revolutions: Iranian-Russian Encounters since 1800*, ed. Stephanie Cronin (London/New York: Routledge, Iranian Studies Book Series, 2012).

41 Mojtaba Damirchielou, “Negah-e irani be tahavolat-e regim hoqouqi-ye daria-ye khazar,” *Faslname –ye motale’at-e asiai-ye qafqaz* 53, (1385/2006): 159–186.

42 Ibid.

43 Interview with Guive Mirfendereski, Boston, March 2009.

44 Bijan Mossavar-Rahmani, “The Challenge of US Caspian Sea Oil Policy,” *Amu Darya. The Iranian Journal of Central Asian Studies* 4, no. 4 (2000): 516–521.

45 Abdal Sadr Hidraf, “Negaresh-e Iran be gostaresh NATO,” *Faslname –ye motale’at-e asia-ye va qafqaz* 59 (1386/2007).

From the Iranian perspective, there is a direct link between NATO's military presence and the location of oil and gas resources. That is why think tanks' publications often highlight the arrival of NATO military experts in Central Asia; the activities undertaken with the Central Asian armies in the framework of the Partnership for Peace;⁴⁶ and the rumor started by the former commander of the Revolutionary Guards, Rahim Safavi, evoking Iraq's future membership of NATO. Think tanks consider NATO as a self-proclaimed gendarme with an illegitimate right of intervention in Middle Eastern affairs. This is a common view among the political elite of the Islamic Republic, whether they be reformists or ideological conservatives.

Nevertheless, despite this theoretical consensus, in practice the Islamic Republic shows some flexibility in its openness to dialogue on security issues with some NATO members. In March 2009, the first informal contacts between NATO and the Islamic Republic took place after more than 30 years of no relations. This first contact consisted of an informal meeting between the Iranian ambassador to the EU, Ali Asghar Khaji, and a NATO negotiator, Martin Erdmann, in Brussels. According to Italian officials, the main topics of discussion were security in Afghanistan and NATO supply, especially the potential of the use of Iranian territory as a supply route.⁴⁷

The Partnership with Russia as Iran's Prism on Central Asia

It is probably in the relationship to Russia that Iranian think tanks express their largest divergences of point of view. Here again, the differences in producing knowledge are directly related to the conservative and reformist factions. Under the Khatami presidency, Tehran supported Russian policy toward Central Asia; but the reformist diplomatic line also included the need for dialogue with Washington on this issue.⁴⁸ On the contrary, the conservative faction, in particular during the Ahmadinejad presidency, has favored the implementation of a strategic partnership with Moscow in order to confront the West. Schematically, Iranian scholars can be divided into two groups. Most

members of the conservative faction advocate pursuing the strategic objective of building an alliance with Russia to preserve the anti-Western identity of the Islamic Republic.⁴⁹ The second group, namely the reformist faction, tries to show that Russia's behavior in Central Asia is worse than Western policies toward Iran.⁵⁰

However, there is predominantly a conciliatory tone vis-à-vis Russia. Many articles present Russian perspectives,⁵¹ address the regional issue affecting Iranian-Russian relations in general, and deal with the question of the remaining hurdles facing the two neighbours in building a strategic partnership. Sharing the same viewpoint as Moscow is even more developed in relation to the issue of "color revolutions" and the West's democratization agenda. Iranian diplomatic discourse has opposed support for democratization measures implemented by the U.S. government and NGOs such as the Soros Foundation. Similar to Moscow, Tehran rejects what it perceives as a Western policy tool to enhance its influence. After the Iranian "Spring" of June 2009, the Islamic Republic of Iran even labelled Western efforts to promote democracy in Central Asia and the Middle East as *jang-e narm*, meaning soft war.

Hoping for Russia to again become a key actor to counter American influence in the region, Iranian think tanks have actively discussed, mostly positively, Putin's presidency and Russia's reassertion on the international stage. Russia's political evolution after the pro-Western Yeltsin decade was interpreted in Tehran as a diplomatic opportunity to enhance its own regional power. In an article entitled "Russia, the West, and Iran," Elaheh Koulaei⁵² points out the Russian disappointment vis-à-vis Western countries after the fall of the Soviet Union, especially after 1994.⁵³ Iranian publications have thus tried to carefully analyze what they define as the "Eurasianist" and "Atlanticist" political factions and their balance in the Kremlin, as Moscow's attitude toward the West is perceived from Tehran as the main factor affecting bilateral cooperation. After Putin's successful comeback to the Russian presidency in March 2012, the view from Tehran sees the probability of persistent Russian-

46 See Mansur Rahmani, "Tozi'e naqsh-e amniati-e nato va sazman-e amniyat va hamkari-e orupa dar asia-ye markazi va qafqaz," *Faslname -ye motale'at-e asia-ye va qafqaz* 22 (1377/1998): 1-10.

47 NATO supply could potentially transit through the Iranian port of Chabahar. See "Iran and NATO end 30-year impasse," *BBC News*, March 27, 2009; and "NATO Members Free to Seek Iranian Supply Route," *Strategic Forecasting*, February 3, 2009.

48 This dialogue comprised informal negotiations between Tehran and Washington on the Afghan situation in the framework of the Geneva Initiative. This multilateral forum allowed the two parties not to be engaged in direct talks. The Islamic Republic was also satisfied to be involved in the diplomatic process regarding Afghanistan while Pakistan and Russia were not participating in the Geneva Initiative. See John W. Parker, *Persian Dreams. Moscow and Tehran since the Fall of the Shah* (Washington D.C.: Potomac Books, Inc., 2009), 181.

49 See the Interview with the Islamic Republic of Iran's ambassador in Russia, "The Iran-Russia Relations. A seminar with Ambassador Mahmoud Reza Sajjadi," Institute for Middle East Strategic Studies (IMESS), July 24, 2012, <http://en.merc.ir/default.aspx?-tabid=98& ArticleId=456>.

50 See Sadeq Kharazi, "Hozur-e rusie dar mozakerat eshtebah bud," *Kharonline.ir*, July 21, 2012, <http://www.khabaronline.ir/detail/228411/weblog/kharazi>.

51 See, for instance, Vitaly Naumkin, "Iran va rusie: taqate' manafe," *Faslname -ye motale'at-e asia-ye markazi va qafqaz* 30 (1379/2000): 9-16.

52 Professor of Political Science at the University of Tehran and a member of the parliamentary friendship group between Iran and Russia.

53 Elaheh Koulaei, "Rusie, gharb va iran," *Faslname -ye motale'at-e asia-ye markazi va qafqaz* 12 (1376/1997): 78-93.

American tensions given the predominance of what they interpret as a “moderate Eurasianism”:

The moderate Eurasianists came to this understanding that confidence building measures are not fruitful, because the West has its own policy and agenda. So, some Russians think that the time for confidence building measures is over. Generally speaking, Putin came to power at the time when the mistrust between the U.S. and Russia was at its peak, unsuccessful confidence-building had been experienced and “resetting” the ties between the two countries wasn’t working and he was being given an unfavourable treatment by the West and especially the U.S. It’s clear that with this background, Putin is not after cooperating with the U.S. I think he wants to correct the West’s wrong policies towards Russia and himself.⁵⁴

To pursue its diplomatic agenda of rejecting Western, and especially NATO influence, in Central Asia, Tehran has had to rely on Moscow as its main ally. In July 2012, the Iranian ambassador in Moscow, Mahmoud Reza Sajjadi, pointed out the main incentives for Russia and Iran to increase their bilateral cooperation:

I think that one of the West’s concerns is that it thinks Iran and Russia have common interests and threats in the region. It is somehow interesting that there are no other two countries in the world which have the same interests and threats. The areas in which we have common threats and interests are: Afghanistan, Central Asia and the Caucasus regions, energy, the issue of Russian disintegration, containing Israel’s strong presence in the region and the weakening of Muslims’ status in Russia, the Caspian Sea region, battling the Salafi and Wahhabi activities in the Caucasus region, Iraq, Palestine, and the Syrian crisis. In Afghanistan, in the three areas of drug smuggling, battling the extremists, and the U.S. long-term presence, the two countries have mutual interests. The second common issue is Central Asia and the Caucasus regions. Setting up NATO or U.S. bases in these regions is a concern for both countries. The third is related to the field of energy. Of great concern to us, is the fact that if Turkmenistan’s gas and Kazakhstan’s oil reaches the European markets via the Caspian Sea, bypassing our and the Russians’ market, it can have adverse effects on our energy markets. Therefore, we are strongly against laying pipelines under the Caspian Sea, on the pretext that it has environmental consequences.⁵⁵

Iranian support of Russian policy in the former Soviet space is therefore one of the main assets of Iranian

diplomats when negotiating with Russia, especially the nuclear issue. According to Iranian publications, Tehran’s goal of developing economic relations with Central Asia should not be interpreted as an anti-Russian policy.⁵⁶ Similarly, Iran’s strategy to increase the role of the Economic Cooperation Organization (ECO, with Turkey, Pakistan, and four Central Asian states), and of the Shanghai Cooperation Organization (SCO), has no anti-Russian objective, but rather an anti-Western one.⁵⁷ However, Iranian think tanks are also disappointed by what they interpret as the growing lack of support by Moscow of the Iranian stance on the nuclear issue. An expert on Iran and Russian ambassador in Tehran, Konstatin Shevalev detailed the Russian diplomatic rejection of the term “strategic partnership” when talking about Russian-Iranian relations:

I have to be direct on that because I don’t like the term ‘strategic partner,’ since usually it is not viewed as a zero sum relationship, since should the interests of one side be infringed upon the other must enter the picture no matter what. This kind of relationship never existed between Iran and Russia and never will, since Russia can only embark on this type of ties with the CIS.⁵⁸

Concluding Remarks

As a result of the openness of Iranian diplomacy between 1989 and 2005, Iranian think tanks and research centers multiplied. After 2005 and the rise of the Iranian neoconservative faction to the presidency, it has become more difficult for Western and Iranian experts to engage in dialogue regarding shared objectives, namely preserving regional stability. The output of Iranian think tanks outlines both the innovative aspect of Iranian foreign policy after the first revolutionary decade and the limited changes implemented by Khomeini’s successors.

On the innovative side lies the pragmatism of Iranian regional policy, determined by two main objectives in Central Asia: the search for stability on its north-eastern frontier and the need for its Central Asian diplomacy to accommodate Russian objectives. This is a new trend in Tehran’s foreign policy which was previously, first and foremost, determined by revolutionary objectives. The moderate position toward Russia and the need for Tehran to follow Russian diplomatic guidelines demonstrates the limit of Iran’s ambition to occupy the role of an independent regional power in the former Soviet space.

54 Sajjadi, “The Iran-Russia Relations.”

55 Ibid.

56 Mojtaba Faraji, “Asia-ye markazi bedonbal-e hoviat-e mostaqel,” *Faslname –ye motale’at-e asia-ye markazi va qafqaz* 62 (1387/2008): 173–203.

57 Fathollah Mehradi, “Sazman-e hamkari shānghay: qodrat-e tavazon bakhsh,” *Faslname-ye motale’at-e asia-ye markazi va qafqaz* 62 (1387/2008): 127–155.

58 Konstatine Shevalev, “Russia Will Expand Ties With Iran Regardless of Third Party Opinion,” *Amu Darya. The Iranian Journal of Central Asian Studies* 4, no. 2 (1999): 272.

Russia, Iran, and Central Asia: Impact of the U.S. Withdrawal from Afghanistan

Mark N. Katz¹ (2013)

Washington has long sought to gain Moscow's cooperation in increasing international pressure on Tehran over its nuclear program. Given the many differences between Moscow and Tehran, which the two seem incapable of resolving, Washington may have been encouraged to think that obtaining Russian support was possible. Indeed, Russian-Iranian differences span a whole range of issues, which includes the delimitation of the Caspian Sea, Iranian unhappiness with the constant delays in Russia's "help" on the Bushehr nuclear reactor project, petroleum issues, contract terms regarding Iranian purchases of arms and other items from Russia, Moscow's close ties to Israel, and how to resolve the Iranian nuclear crisis. In addition to these specific policy differences, the leaders and the press of both countries frequently display mistrust and even contempt for the other.

Despite these differences, Moscow and Tehran have also shared some long-enduring common interests, including: a shared distrust of America and the West in general, a common fear of Sunni radicalism, and largely convergent aims in both the Caucasus (North and South) and Central Asia. The impending withdrawal of American and Coalition forces from Afghanistan, it will be argued here, is likely to increase Moscow's and Tehran's sense of shared interests in Central Asia in particular.

This article reviews how Moscow and Tehran have pursued complementary aims in Central Asia up to now, discusses how the American and Coalition withdrawal from Afghanistan will reinforce this, and examines what this means in the overall context of Russian-American relations.

Russia and Iran in Central Asia

Just after the collapse of the Soviet Union at the end of 1991, there was much speculation—especially in Washington—that Iran would somehow seek to spread both its influence and brand of revolution to Central Asia. And while Iran (along with Turkey, Saudi Arabia, and Pakistan) did entertain unrealistic initial expectations about how Central Asia would naturally gravitate toward it, Tehran quickly adopted a pragmatic approach toward

the region by establishing good working relations with the new governments rather than attempting to export revolution to the region.

In Tajikistan—where civil war broke out in 1992 between the Russian-backed ex-communist regime on the one hand and an "Islamic/democratic" opposition on the other—Tehran worked closely with Moscow to resolve the conflict in 1997 on terms favorable to Russia's allies. Nearly two decades later, Russian sources continue to cite Iranian cooperation with Moscow in resolving the Tajik civil war as evidence that Iranian foreign policy is far more pragmatic than ideological in character.

Similarly, during the period between the rise to power of the Taliban in much of Afghanistan in 1996 and the U.S.-led intervention in that country shortly after 9/11, Russia and Iran both supported the Northern Alliance forces that were resisting Taliban rule. The governments of Iran, Russia, and Central Asia all had good reason to fear the Taliban. In addition to harboring Al Qaeda, the Taliban also provided sanctuary to the Islamic Movement of Uzbekistan—which launched military campaigns from Afghan territory into Tajikistan, Kyrgyzstan, and Uzbekistan in 1999 and 2000. The aim of this group was to oust the secular, pro-Russian regimes and spread its brand of Islamic radicalism into Central Asia. Moscow feared that this movement also sought to spread its revolutionary activity into the Muslim regions of Russia itself. Further, the Taliban—like Al Qaeda—was anti-Shi'a as well as anti-Western, anti-Israeli, and anti-Russian. Their brand of radical Sunni Islamism was a revolutionary ideology that was hostile to Iran—much like the Chinese variant of Marxism-Leninism was hostile toward the Soviet Union. Indeed, Iran and the Taliban almost went to war in 1998 after the summary execution of several Iranian diplomats in Afghanistan.

Accordingly, the Russian, Iranian, and Central Asian governments were all relieved when the United States intervened in Afghanistan after 9/11 and quickly toppled the Taliban regime. Whereas none of these governments took part in the intervention, they extended cooperation in various ways: Uzbekistan, Kyrgyzstan, and Tajikistan all provided military facilities to Western forces, to which Russia gave its blessing, while Iran also indicated its willingness to assist.

This era of good feeling, of course, did not last. In the lead-up to the U.S.-led intervention in Iraq in 2003, Iranian-

1 George Mason University.

American and Russian-American relations returned to their more usual state of hostility. Further, U.S. support for the 2005 “Tulip Revolution” in Kyrgyzstan as well as Western criticism of the Uzbek government’s crackdown against opposition activity in Andijon shortly afterward resulted in the Shanghai Cooperation Organization (SCO) summit that year calling for the U.S. to withdraw its forces from Central Asia. Uzbekistan went on to expel U.S. forces with the new Kyrgyz government—in spite of American support behind its coming to power—threatening to follow suit.

Although they have often differed on various issues (including their degree of receptivity to cooperation with the U.S.), it has been clear since the breakup of the USSR that the Russian, Iranian, and Central Asian governments are all basically united in supporting the continuation of the authoritarian status quo in Central Asia. All of them have opposed Western-backed democratization efforts as well as radical Sunni Islamization of the region.

U.S. Withdrawal

The large-scale American military presence in Afghanistan is something that the Iranian, Russian, and Central Asian governments became wary of—especially during George W. Bush’s presidency. When it appeared that the U.S.-led war effort in Afghanistan would be successful, they feared that the U.S. would then attempt to democratize them too. This led them to work against the U.S. in various ways. While Russia in principle supported the American and Coalition presence in Afghanistan after 9/11, it sought to limit American presence in the Central Asian states—despite the fact that their territories were important for supporting the Afghan mission. The Central Asian governments saw the American-led military action against the Taliban and Al Qaeda in Afghanistan as helpful to their own survival, but they also clung to Russia and China as protectors of the authoritarian status quo. Despite the tensions that arose between Tehran and the Taliban prior to 9/11, the intensification of Iranian-American hostility after 9/11 led Iran to support anti-American forces in Afghanistan (as well as in Iraq).

The Obama Administration’s announcement that U.S. forces would leave Afghanistan by the end of 2014 reduced these governments’ fears about the prospects for the expansion of American influence in the region. At the same time, though, it has increased their concern about the return of radical Sunni Islamism to Afghanistan, from whence it could once again attempt to spread to neighboring countries. The Russian government as well as several of the Central Asian states were quick to recognize the problem that an American withdrawal could cause them. They were thus willing to offer the

Northern Distribution Network to the U.S. and its allies as an alternative to the increasingly uncooperative Pakistan. Indeed, there even seemed to be some hope in Moscow and the Central Asian capitals that the ability to supply its forces via the NDN would encourage the U.S. and some of its allies to continue their military effort in Afghanistan.

The impending U.S. withdrawal has not, of course, led to greater cooperation between Tehran and Washington. Further, the absence of the U.S. is unlikely to see anything other than hostile relations between Iran on the one hand and the Taliban as well as other anti-Shi’a forces abetted by Pakistan on the other. The presence of the common American enemy in Afghanistan, after all, did not prevent instances of radical Sunni opposition activity against the Tehran government from occurring.

The real question is not whether the Russian, Iranian, and Central Asian governments will work against the Taliban and other radical Sunni groups in Afghanistan after the American departure, but whether and to what extent they will work together or at cross purposes. Presumably, the greater the common radical Sunni threat to them that emerges in Afghanistan, the more likely they are to try to work together to counter it.

There appears to be little doubt, however, that a radical Sunni threat will emerge in Afghanistan. Intent on preventing India from gaining influence in Afghanistan, Islamabad is likely to continue to support the Taliban and other Sunni radical forces there. For as difficult as these groups are for Pakistan to work with, Islamabad can at least be confident that radical Sunni groups will not ally with India against it. The problem with doing this, of course, is that while the Taliban and other radical Sunni groups may accept Pakistani assistance, this does not mean that Islamabad can control them. Indeed, the more powerful such groups become in Afghanistan, the less able Pakistan will be to prevent them from supporting radical Sunni groups that target other countries (as occurred when the Taliban was previously in power). Despite this, Pakistan is likely to continue supporting the Taliban and similar groups so as to prevent the rise of Indian influence in Afghanistan.

Implications

For the governments of Iran, Russia, and Central Asia, the prospect of the Taliban and/or other radical Sunni movements returning to power in all or part of Afghanistan after the U.S. withdrawal is a clear and present danger that they will all have to deal with. In contrast, the prospect of Iran acquiring nuclear weapons is seen by the Russian and Central Asian governments as either overblown (as Russian officials repeatedly state), not that serious a problem for Russia and Central Asia

(since Iran is unlikely to launch an attack on them—or perhaps anyone else), or as a problem that the United States (perhaps in conjunction with Israel) will feel forced to confront through military action. And while Russia and Central Asia may benefit from a “disarmed” Iran, they do not wish to be associated with any such strategy for fear of the harm this would cause their own relations with Iran.

Thus, while neither the Russian nor the Central Asian governments may want Iran to acquire nuclear weapons, the impending American withdrawal from Afghanistan

actually reduces their incentive to cooperate with the U.S. and any of its close allies in undertaking measures to prevent Tehran from doing so. From the Russian and Central Asian perspective, it would be counterproductive for them to alienate Tehran at Washington’s behest since they will need to cooperate more with Iran in dealing with what they view (fairly or unfairly) as the mess America created and will soon walk away from in Afghanistan. For the U.S. government, or anyone else, to expect otherwise would simply be unrealistic.

PART IV. MONGOLIA, THE OTHER EURASIA

Landlocked Assertiveness: Mongolia's Restructured Realism in a More Complex World

Mathieu Boulègue¹ (2012)

The post-Soviet evolution of Mongolia seems, at first glance, to be a genuine success story. Mongolia's peaceful democratic revolution in 1990 brought about the overthrow of the Communist regime. Yet the turnover of the political elite was in fact a gradual process, as every leader of the democratic coalition had been a former member of the Communist Party. After the passing of a new constitution in 1992, the 1993 presidential ballot led to the election of a non-Communist leader for the first time. Democratic governance was subsequently reinforced during the parliamentary elections when the opposition claimed the majority in the State Great Khural in 1996. Despite witnessing modest economic growth, rapid privatization and the transition to a free-market economy were accompanied throughout the 1990s by galloping inflation rates and food shortages, mostly due to political inaction and extreme climatic constraints. The harsh recession experienced in the early 2000s was fortunately curtailed by arrival of the first foreign investments on the back of an initial phase of prospecting—as well as the (re) discovery of the Mongolian mining industry—that had been carried out on mineral deposits in the late 1990s.

Today, the country's general economic indicators are striking: with a 17.3 percent growth rate recorded in 2011,² Mongolia is one of the fastest growing economies in the world. This is largely attributable to its “mining boom,” with the landlocked republic in the grip of heightened competition between world powers in a race

for metallurgical coal and precious metals. Thus, the opening of the country and its mineral deposits since the end of the Cold War have attracted foreign investments, which have slowly turned Mongolia into a coveted and attractive outlet. Despite this economic revival, structural constraints still hamper the harmonious development of the country in the long term. Stuck between dependency on its demanding neighbors of Russia and China and increased diplomatic assertiveness, Mongolia today finds itself at a crossroads.

Taking Stock of the “Mining Boom”

Over the past several years, the Mongolian mining industry has been experiencing unprecedented growth due to the arrival of international raw material extracting companies and foreign investors, who have been battling for their share of natural resources—primarily coal, copper, uranium, and rare ores.³ Today, the mining sector represents about a third of the national Gross Domestic Product (GDP), and accounts for 80 percent of exports.⁴ The latest estimates show that Mongolia holds at least \$1 trillion in terms of the worth of its untapped minerals and metals.⁵ The Gobi desert, in south-eastern Mongolia, is at the center of this new-found Eldorado. Sainshand, the capital of the Dornogovi Province in the eastern Gobi desert, is deemed the new industrial heart of Mongolia, with several zinc, iron, and oil deposits currently being exploited. Furthermore, billions of dollars in Foreign Direct Investments (FDI) are arriving from China, Korea, and Japan, which are swiftly turning the region into a huge industrial complex.⁶

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2 “Mongolian Economic Growth Again Tops Growth Charts,” *UB Post*, October 12, 2012, <http://ubpost.mongolnews.mn/?p=1452>.

3 Metal ores and rare earths have already been the focus of detailed coverage in Sebastien Peyrouse, “Rare Earth Metals in Central Asia and Mongolia: A Promising but Paradoxical Agenda,” *Central Asia Economic Paper* No. 1, August 2012.

4 See “Underlying Mining Development In Mongolia Picks Up Despite Uncertainty Regarding The Oyu Tolgoi Investment Agreement,” *M.A.D Mongolia*, October 24, 2012, <http://www.mad-mongolia.com/news/mongolia-news/underlying-mining-development-in-mongolia-picks-up-despite-uncertainty-regarding-the-oyu-tolgoi-investment-agreement-13357/>.

5 Even though such figures cannot be verified and are constantly subject to new approximations. See “Mongolia and mineral wealth - A leap of faith or a question of timing?,” *The International Resource Journal*, August 11, 2012, http://www.internationalresourcejournal.com/features/august11_features/mongolia_and_mineral_wealth_-_a_leap_of_faith_or_a_question_of_t.html.

6 The state-owned Foreign Investment and Foreign Trade Agency (FIFTA) is currently running a vast advertising campaign and conducts large-scale lobbying activities in order to increase Mongolia's visibility for foreign investors. See www.investmongolia.com.

Metallurgical coal, also known as coking coal, is certainly Mongolia's most lucrative market. The numerous mines in operation produced almost 800 million tons of metallurgical coal in 2011;⁷ the total reserves are calculated at 750 billion tons, thus constituting the country's largest reserves.⁸ Plentiful and of high quality, Mongolian coal is directly exported or transformed into steel in the factories located in the central Tsankhi area. The Tavan Tolgoi deposits, located less than 300 kilometers away from the Chinese border, best exemplifies the mining boom of the South Gobi desert. Spread out over 168,000 acres, the mining complex is one of the biggest in the world, with at least 7.5 billion tons of expected reserves.⁹

National player Erdenes Tavan Tolgoi LLC¹⁰ will soon operate the mines in the eastern area, while the western blocks will be placed under the supervision of international companies. In July 2011, Chinese giant Shenhua Energy Co., American player Peabody Energy, and a Russian-Mongolian group were picked by the government to develop the bloc. China will hold 40 percent of the shares, Peabody 24 percent, and the joint venture 36 percent.¹¹ Remaining under the strict ownership of the Mongolian government, this contract should allow six international bidders to invest, hold shares, and work together on this mining project, which is expected to produce as much as 10 million tons of metallurgical coal a year.¹²

A \$3 billion Initial Public Offering (IPO) on Erdenes was set up in 2011¹³ but the short list of foreign investors has been delayed several times for both political and judicial reasons, and has now been pushed back until the first quarter of 2013.¹⁴ Copper extraction is another asset responsible for the mining boom. Located close to the border with China, the Oyu Tolgoi copper mine

and its underground mineral deposits are on the verge of becoming one of the largest mines in the world. These copper, silver, and gold deposits were bought in 1999 by Canadian player Ivanhoe Mines Limited, but it was only after the Mongolian government passed legislation to open the shafts to foreign investments that a joint-venture agreement was signed in 2009 between Australian Rio Tinto and Canadian Ivanhoe Mines—holding 66 percent of the shares—and the Mongolian government, which possesses the remaining 34 percent.¹⁵ With expected reserves of up to two billion tons of copper, the complex should produce 450,000 tons of copper a year—accounting for 3 percent of worldwide production—as well as nine tons of gold in the first decade of operation.¹⁶ Two mine shafts are expected to be operated for a period of almost 50 years after completion, which is scheduled around the first half of 2013.¹⁷ Upon reaching full production, expected in 2018, revenues of \$6 billion are expected to be generated each year.¹⁸

Mongolia is also rich in uranium.¹⁹ Due to surveys carried out during Soviet times,²⁰ more than one hundred deposits have been catalogued, containing roughly 50,000 tons of raw uranium.²¹ Russian Rosatom's subsidiary AtomRedMedZoloto even estimated that Mongolia could contain twice as much, which would place the country in the top ten worldwide producers.²² Since 2008, Moscow has become a major actor in Mongolian uranium extraction after signing its first cooperation agreement, which established a joint venture between AtomRedMedZoloto and Mon-Atom to exploit the Dornod underground deposit.²³ With as much as 28,000 tons of raw uranium, the Dornod mines, located in the eastern part of the Gobi desert, represent

7 "Chinese Coal Markets and Mongolia's Exports," *Discover Mongolia Forum*, <http://www.discovermongoliaforum.com/ppts/Mr%20Alex%20Molyneux.pdf>.

8 Mongolia benefits from tremendous quantities of near-surface, easy to extract, high-value metallurgical grade coal.

9 See CPS International LLC, February 20, 2012, <http://www.cpsinternational.mn/content/19835.shtml>. These estimates are subject to variance according to new surveys.

10 Founded in 2010, Erdenes Tavan Tolgoi operates as the fully-controlled subsidiary of Erdenes Mongolia.

11 "Mongolia picks companies to develop coal project," *The China Post*, July 6, 2011, <http://www.chinapost.com.tw/business/asia/other/2011/07/06/308723/Mongolia-picks.htm>.

12 "Erdenes Tavan Tolgoi LLC to extract 3.5 million ton of coking coal in 2012," *Info Mongolia*, September 18, 2012, <http://www.infomongolia.com/ct/ci/4948>.

13 "Erdenes Tavantolgoi IPO could raise \$10.6 billion," *Business-Mongolia.com*, June 6, 2012, <http://www.business-mongolia.com/mongolia/2012/06/06/erdenes-tavantolgoi-ipo-could-raise-10-6-billion/>.

14 This is owing to the fact that the outcome of the June 2012 parliamentary elections has somewhat changed Mongolia's mood concerning the participation of foreign investors in major mining projects, mostly for reasons of national sovereignty.

15 See "Oyu Tolgoi History," *Turquoise Hill*, http://www.ivanhoemines.com/s/Oyu_Tolgoi.asp?ReportID=379190.

16 "Mongolia's Oyu Tolgoi to Start Copper and Gold Production in Late 2012," *MetalMiner*, March 15, 2012, <http://agmetminer.com/2012/03/15/mongolias-oyu-tolgoi-to-start-copper-and-gold-production-in-late-2012/>.

17 See "Oyu Tolgoi Overview," *Turquoise Hill*, http://www.ivanhoemines.com/s/Oyu_Tolgoi.asp?ReportID=379189.

18 "Mongolian Government to increase tax on Oyu Tolgoi," *Business-Mongolia.com*, October 16, 2012, <http://www.business-mongolia.com/mongolia/2012/10/16/mongolian-government-to-increase-tax-on-oyu-tolgoi/>.

19 Mongolia declared itself a nuclear weapon-free country in 1992.

20 Prospecting was mostly carried out in the 1950s and 1960s.

21 "Outside APEC: Mongolia or North Korea – which will be called in?," *Voice of Russia*, July 26, 2012, http://rbth.asia/articles/2012/07/26/outside_apec_mongolia_or_north_korea--which_will_be_called_in_15981.html.

22 Mongolia presently lags behind Kazakhstan, Canada, and Australia, among others, in terms of the biggest uranium producers.

23 The Dornod Uranium LLC joint venture was signed in August 2009.

the most significant uranium extraction project in the country.²⁴ Russia's presence in the uranium industry is, however, not monopolistic; the Mongolian government is also reaching out to French and Japanese firms, as well as Canadian companies to a lesser extent.

Poking Holes in the Economic Rebirth

In spite of the so-called mining boom, little progress has actually been made to modernize the country's economy and to tackle what is a quite worrying inflation rate. One of the main challenges would be to avoid symptoms similar to the "Dutch disease," namely the decay of the inner market and national consumption.²⁵ In this regard, measures have been taken to protect the economy, and the redistribution of wealth seems to be a genuine preoccupation of the authorities. They recently offered 538 shares in Erdenes Tavan Tolgoi to every citizen in an effort to redistribute revenues generated from mining among the population.²⁶ However, low-income households—whose wages have already decreased by 13 percent compared to 2011—have been severely affected by the rampant inflation that skyrocketed to 14.9 percent in July 2012.²⁷

Even though the government's medium-term strategy is to welcome foreign investments in the mining sector and thereby boost economic growth, the poverty rate grew from 35 percent in 2008 to 40 percent last year, and government spending doubled in real terms in 2011.²⁸ Coupled with endemic corruption, growing poverty is also fostering a wave of opportunistic criminality in major cities,²⁹ where living conditions are often worse than in the countryside. This already worrying situation is exacerbated by the increasingly visible safety and environmental concerns caused by extraction.³⁰ Moreover, the mining industry must operate within severe constraints due to

the poor condition of infrastructure as well as the lack of roads and rail lines able to efficiently transport coal out of the mines and out of the country.³¹

Mongolia is nowadays greatly dependent on foreign investments, which is strengthening the competition between world powers in a race for oil, coal, and metal. Whereas the withdrawal of vital Soviet economic assistance³² in 1991 created a recession and a lack of economic growth, the country has slowly pulled itself out of the economic mire thanks to the pursuit of free-market economics, substantial privatization, and the attraction of FDI. In this context, American banks recently vowed to start underwriting the Mongolian debt sale in order to raise its national credit rating by international agencies.³³ Increased capacity to repay national debt could talk investors into spending more money in Mongolia over the medium term.

The national economy is also strongly plagued by agricultural woes. Agriculture accounts for around 20 percent of the country's annual GDP, and roughly 14 percent of national hard currency income is provided by exports of agricultural products.³⁴ Employing 42 percent of the national labor force, this sector is paramount in a country where almost half of the rural population lives below the poverty line.³⁵ However, Mongolia has experienced notable difficulties in grappling with the demise of the state-controlled collective farms, or *negdel*, which made up the core of the Soviet-style collectivization of agriculture. Due to a clear lack of diversification and the overall poor quality of food products, Mongolian agriculture cannot effectively compete with its neighbors. Natural shortcomings also cripple prospects for long-term improvements in this sector: excessive fluctuations in temperature, low precipitation, and a growing season of about one hundred days constrain the potential for further development.

24 "Khan Resources Faces Troubles in Mongolia," *Minegolia.com*, April 3, 2010, <http://www.minegolia.com/?paged=10>.

25 However, the "Dutch disease" is a phenomenon hardly applicable to the Mongolian economic environment. Whereas revenues from the mining sector boost the national economy, salaries and consumption have not increased. Furthermore, Mongolia has few other exportation sectors that could potentially be touched by shrinkages due to increased operations on non-exchangeable markets such as the housing sector.

26 "With Erdevenes-Tavan Tolgoi's IPO, Mongolians will suddenly be rich," *Asian Mining*, June 9, 2011, <http://asianmining.blogspot.fr/2011/06/with-erdenes-tavan-tolgois-ipo.html>.

27 The inflation rate averaged 12.6 percent between 2007 and 2011.

28 "Poverty Level Estimated at 29.8 Percent in Mongolia," World Bank, April 17, 2012, <http://www.worldbank.org/en/news/2012/04/17/poverty-level-estimated-at-nearly-30-percent-in-mongolia>.

29 On top of petty crime, resentment against foreign nationals is said to be on the rise in Ulaanbaatar, as some expatriates have been victims of unprovoked attacks in the capital city. The presence of foreign extraction and mining companies could very well explain this feeling of mistrust, coupled with a xenophobic nationalism among certain strata of the population affected by the worsening economic conditions.

30 The mining industry mainly affects air and water quality as well as wildlife and flora in the concerned regions. On top of disastrous agricultural and sanitary issues, this could very well negatively impact the tourist industry.

31 Railway construction, promoted by international mining companies, is a sensitive subject in Mongolia as it is seen as both an opportunistic way to connect the country but also as a sign of infringement by foreign powers.

32 Soviet assistance made up about a third of national GDP and was withdrawn almost overnight in 1991.

33 Mongolia has a B1 rating at Moody's and a BB- at Standard & Poor's.

34 "Mongolia: Rural Sector Strategy and Business Plan," World Bank, World Bank – East Asia and Pacific Region Rural Development and Natural Resources Sector Unit, July 21, 2006, <http://siteresources.worldbank.org/INTEAPREGTOPRURDEV/Resources/573691-1141228934263/2280904-141235261737/Mongolia-RD-Strategy-Jul06.pdf>.

35 CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/mg.html>.

Herdling and animal husbandry is at the heart of Mongolia's agriculture, yet the livestock sector is in a precarious situation as pastures have deteriorated considerably over the past decade. Due to poor management and a lack of infrastructure, overgrazing is threatening the sustainability of the livestock sector and thus the very survival of rural Mongolia. Extreme winter weather (*dzud*) also affects the sector: in 2009, national GDP fell by almost 2 percent due to a particularly harsh winter that killed more than 20 percent of all livestock.³⁶

Crops are the second most important sector in Mongolian agriculture. They make up for 14 percent of the annual agricultural output and mainly comprise wheat, corn, barley, and potatoes, with cereals accounting for 86 percent of production.³⁷ Mongolia is nonetheless characterized by a daunting shortage of arable land which accounts for only 0.8 percent of its territory.³⁸ This shortcoming prevents it from sustaining self-sufficiency: wheat production only suffices in covering a quarter of annual needs while domestic vegetables supply less than half of demand.³⁹ Due to the ill-implemented privatization of the *negdels* and the subsequent sharp decline in crop production, the Mongolian government has had to implement several rounds of agricultural campaigns to increase output and intensify crop development. The results of which have barely been apparent, and the sector still suffers from low productivity, inefficient harvesting, as well as a punishing lack of equipment and modern irrigation.

Directly linked to agriculture, the issue of access to clean water is increasingly becoming a matter of concern. Water supplies are scarce as only 0.4 percent of Mongolia is covered by water surfaces.⁴⁰ Water supply is a critical problem in southern provinces, especially in the Gobi region where herders have to frequently relocate their flocks so as to access water.⁴¹ Partly owing to climate change, the local water ecosystem is both subject to degradation and rapid depletion of available resources. Mining activities and subsequent pollution, deforestation, as well as overgrazing are other factors explaining the depletion of water resources.

Crossroads on the Steppes: Mongolia between Dependency and Assertion

Notwithstanding the usual cliché depicting Mongolia as a buffer state sandwiched between its two giant and overbearing neighbors of Russia and China, the reality is that the Mongolian Republic has to deal with a situation of dependency on these demanding economic and political partners. President Tsakhiagiin Elbegdorj humorously characterized Mongolia's situation as being that of a "little pony between two big elephants."⁴² In its interactions with the two powers, Mongolia is pursuing a careful foreign policy that avoids direct conflict and provides the country's with profitable contracts.

China is Mongolia's biggest and most important commercial partner, with a bilateral trade turnover of \$3.3 billion in the first half of 2012.⁴³ As Mongolia's primary trading partner, China buys 85 percent of its neighbor's exports—mostly mining byproducts—and bilateral trade grew by 65 percent in 2010. What is more, Chinese FDI represents more than half of annual foreign investments in Mongolia.⁴⁴ Both countries aim at strengthening the strategic partnership signed in 2003 that seeks to bolster the exploitation of Mongolia's mineral resources by Chinese operators, which is commonly referred to as "good-neighbor friendship and mutually-beneficial cooperation."⁴⁵ Indeed, Beijing controls shares in many of the extracting companies operating in the country.

On the other hand, Moscow is also another indispensable actor for Mongolia, with controlling interests in not only several mining ventures but also in over half of the railway system and freight transport network, allowing it to fully manage extraction and transport toward Russia. In 2007, Moscow wrote off Mongolia's debt in exchange for the exploitation of uranium deposits.⁴⁶ Dependency on Russia is further increased by the fact that it provides Mongolia with 95 percent of its oil imports—with the leverage this implies⁴⁷—and the totality of its grain imports. Mongolia is also heavily dependent on Russian electric power, leaving it vulnerable to price fluctuations.

36 D. Bat-Erdene, "Agricultural policy of Mongolia enhancing productivity of agricultural sector," Ministry of Food, Agriculture and Light Industry, 2011.

37 "Cereal yield in Mongolia," *Trading Economics*, no date, <http://www.tradingeconomics.com/mongolia/cereal-yield-kg-per-hectare-wb-data.html>.

38 "Agricultural land in Mongolia," *Trading Economics*, no date, <http://www.tradingeconomics.com/mongolia/agricultural-land-sq-km-wb-data.html>.

39 See the Foreign Affairs ministry website <http://www.mofa.gov.mn/mn/>.

40 "Water profile of Mongolia," Food and Agriculture Organization, 2007, http://www.eoearth.org/article/Water_profile_of_Mongolia.

41 N. Batnasan, "Freshwater issues in Mongolia," Proceeding of the National Seminar on IRBM in Mongolia, September 24-25, 2003, Ulaanbaatar, 53-61, http://awsassets.panda.org/downloads/freshwater_issues_in_mn_march04.pdf.

42 Jaime FlorCruz, "Mining fuels Mongolia's wolf economy," *CNN*, May 20, 2011, <http://edition.cnn.com/2011/WORLD/asiapcf/05/19/mongolia.mining.economy/index.html>.

43 "Mongolia's Coal Development Policies Tied to Goal of Reducing Proportion of Chinese Investment," *Eurasia Daily Monitor* 9, no. 159, September 4, 2012, [http://www.jamestown.org/programs/edm/single/?tx_ttnews\[tt_news\]=39789&cHash=95749c7019f6b368f47512228756a4f0](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=39789&cHash=95749c7019f6b368f47512228756a4f0).

44 "The Asian Wolf bites the hand of opportunity," *China Daily*, September 13, 2012. http://www.chinadaily.com.cn/regional/2010-09/13/content_11291976.htm.

45 Bilateral relations were upgraded to a strategic partnership in June 2011, implying closer and privileged ties.

46 David A. Andelman, "Across the Mongolian Steppes," *World Policy Journal* 28 (Winter 2011-2012): 120.

47 In May 2011, a shortage of oil imports to Mongolia forced retailers to double the price of gasoline overnight after Moscow decided to (un)expectedly raise export duties by 40 percent.

This position of dependency is understood in Ulaanbaatar as encroaching on national sovereignty. Therefore, in terms of the regional balance of power, the government is seeking a “third neighbor” so as to enable it to pursue a more balanced diplomatic and economic policy. The concept of third neighbor was first introduced in 1990 by then-U.S. Secretary of State James Baker to qualify the United States as an alternative to the Soviet Union and China.⁴⁸ The expression stuck and was turned into a quasi-doctrine in the wake of the democratic revolution. Today the concept is revealing of the state of mind of a young and small democracy evolving in a neighborhood of unenviable authoritarian regimes; in other words, it is a strategy by which to balance partners by choosing different economic and political options over the long term.⁴⁹ Mongolia restructured its global foreign policy orientation after the democratic revolution and is now conducting a pragmatic and realist diplomacy in order to ward off what it perceives as Moscow’s and Beijing’s relative infringement on its national sovereignty.

The main difficulty Mongolia faces is to prevent it from being relegated solely to the role of supplier of raw materials, which could in turn lead to a restrictive economic over-specialization.⁵⁰ In this, the search for a third neighbor means that the country is on the lookout to diversify its strategic alliances and business partnerships, and to find new outlets for exports. It thus oscillates between different economic partners and diplomatic allies to maximize national advantages. In thus doing, the third neighbor is not a single privileged partner but rather a myriad of stable allies that Mongolia can count on to diversify its economy. Among these are India, South Korea, Japan, Turkey, the United States,⁵¹ and interestingly enough North Korea⁵² —even though ties with the latter are intrinsically limited.⁵³

Out of these “third neighbors,” South Korea would seem to be the most prominent business player in

Mongolia: economic cooperation and bilateral trade has already quadrupled since the establishment of diplomatic relations in 1990. In 2011, South Korea was the third largest trading partner and fourth largest investor in the country, with a trade turnover amounting to \$250 million.⁵⁴ The same year, South Korean investments represented 5.5 percent of total FDI in Mongolia, amounting to \$40 million, and are constantly rising. In 2011, cooperation grew through a mid-term action plan to create a comprehensive partnership on uranium extraction and ore mining, electricity and renewable energies, as well as infrastructure and construction.⁵⁵ South Korean investments are particularly tangible in Mongolian telecommunications, corporate banking and finance, and the automobile sector—Hyundai Motor Company is today the largest seller of passenger cars in Mongolia.⁵⁶ In terms of mining, the state-owned Korea Coal Corporation (KOCOAL) signed a Memorandum of Understanding with the Mongolian government on the joint development of the Nuurst Khotgor open-pit mining complex, in Uvs province (Northwest).⁵⁷ Interestingly, moreover, South Korea hosts the largest population of Mongolian expatriates, with more than 33,000 people.⁵⁸

Mongolia is increasingly asserting itself as an independent actor able to make its own foreign policy choices, thus seeking to step out of the shadow of Beijing and Moscow. Several developments concerning the Tavan Tolgoi mine are relevant to this new-found international maturity: in late 2010, Mongolia overtly chose economic sovereignty over immediate profit when the government decided to cancel the construction by Shenhua Energy of a railway connecting Tavan Tolgoi to the Chinese border. With a more expensive route of 1,110 kilometers, the railway will instead be constructed in collaboration with Deutsche Bahn toward the Russian border town of Solovevsk. Despite obvious practical reasons,⁵⁹ this shows

48 Dorjjugder Munkh-Ochir, “Mongolia’s ‘Third Neighbor’ Doctrine and North Korea,” *Brookings Paper*, January 18, 2011, http://www.brookings.edu/research/papers/2011/01/28-mongolia-dorjjugder#_ftn3.

49 Alicia J. Campi, “Mongolia’s Foreign Policy Vision for Eurasia,” Jamestown Foundation seminar, November 10, 2010.

50 This is somewhat similar to what is happening in Central Asia concerning China’s bid for regional raw materials and ores. See Vladimir Paramonov, “China and Central Asia: Present and Future Economic Relations,” *Conflict Studies Research Center – Central Asian Series* 05/25 (May 2005), 8; and Marlene Laruelle and Sebastien Peyrouse, *China as a Neighbor: Central Asian Perspectives and Strategies* (Washington, DC: The Central Asia-Caucasus Institute, 2009), 41.

51 Andelman, “Across the Mongolian Steppes,” 110–121.

52 According to a WikiLeaks cable, Mongolia would have allegedly played the intermediary in talks between Washington and Pyongyang in 2009. See “WikiLeaks: Mongolia passed North Korea message to U.S.,” *CNN*, December 1, 2010, <http://edition.cnn.com/2010/US/11/30/wikileaks.nkorea.mongolia/index.html>.

53 Migeedorj Batchimeg, “Mongolia’s DPRK Policy: Engaging North Korea,” *Asian Survey* 46, no. 2 (2006): 275–297.

54 “South Korea third largest trading partner of Mongolia,” *Business Council of Mongolia*, June 9, 2011, <http://www.bcmongolia.org/news/1222-south-korea-third-largest-trading-partner-of-mongolia>.

55 “Korea and Mongolia, Cooperation on Resource Areas – New Way to Secure Rare-Earth Metals,” *KONICOF*, September 29, 2011, http://eng.konicof.or.kr/04_news/01_international.php?req_P=bv&req_BIDX=1&req_BNM=c2c95a250c7cbd2fb54500f02ca80e26&req_VI=303&req_PC=20&req_CG=&sCATE=&sCHAR=.

56 “Hyundai Becomes Largest Passenger Car Seller In Mongolia,” *Business-Mongolia.com*, August 18, 2011, <http://www.business-mongolia.com/mongolia/2011/08/18/hyundai-becomes-largest-passenger-car-seller-in-mongolia/>.

57 “Mongolia Daily,” *Eurasia Capital*, December 29, 2011, http://www.eurasiac.com/files/mongolia_daily/mongolia_daily_291210.pdf.

58 Andelman, “Across the Mongolian Steppes,” 120.

59 Chinese freight transport is considered overburdened, hard to connect, and crippled by heavy tolls and barriers.

that Mongolia is able to take autonomous decisions that it perceives to be more to its advantage, and in so doing, limiting the excessive stranglehold of China on its core economic interests.

Similarly, in July 2009 the parliament, which suspended exploiting licenses for three months, introduced a law guaranteeing the state 51 percent of the stakes in the exploration of every nuclear-related deposit.⁶⁰ More recently, the outcome of the June 2012 parliamentary elections led to the formation of a nationalist-prone coalition government that could sensibly renege on its openness to foreign investors: indeed, if the "Resolution 57" is voted through by the parliament, Mongolia could seek to acquire a bigger stake in the Oyu Tolgoi initial agreement and thus ensure greater control over national resources.⁶¹

Nonetheless, Mongolia's increasing assertiveness could not have taken place without the implicit consent of its neighbors, who both play an underlying role in recognizing and respecting the country's sovereignty. Therefore, it should be recalled that it was China that talked Moscow into withdrawing its military presence from post-Soviet Mongolia; and, on the other hand, it was Russia that fostered Mongolia's entry into the United Nations in 1961 as well as played a role in Beijing's recognition of the republic's independence.⁶² From Moscow's and Beijing's point of view, the rationale behind the respect of Mongolia's sovereignty is thereby to maintain a strategic neutral space between them.

Concluding Remarks

This paper has attempted to outline the pursuit of emancipation of a young democracy currently vying for political and diplomatic acknowledgement sandwiched between two regional hegemonies intent on carving up its natural resources. In this context, two main long-term paths can be discerned.

On the one hand, Mongolia could pursue an open-minded multilateral diplomacy toward its moneylenders and therefore ensure a bonanza of perks from the mining boom. Growth and development would thus be ensured primarily thanks to Chinese and Russian FDI; but Mongolia would pay for this in terms of increased dependency and would find it harder to assert its own independent position. On the other hand, Mongolia could also turn inward for reasons of preserving national sovereignty.⁶³ This would help the country foster its growing diplomatic maturation and its reaching out to third neighbors at the relative expense of China and Russia; yet this could also decrease the chances for genuine development and the renovation of derelict infrastructures.

In the short term, Mongolia would benefit mostly from both revitalizing its national sovereignty to enable it acquire room for maneuver in making its own choices as well as simultaneously opening itself up to FDI to support its rapid economic growth while staying vigilant in regard to signs of over-dependency in the economic sphere. Potential third neighbors should in turn ensure that they enter the country in a logic of competition that corresponds to Mongolia's idea for cooperation as not one of conflict but rather openness.

60 The new law brings amendments to the 1993 Foreign Investment Law of Mongolia by allowing a maximum limit of 49 percent in regard to foreign ownership over strategic mining assets. See *Mongolian Mining Law Brief*, June 2009, https://www.taalo-bakernet.com/e/areas_of_practice/practice_group/pdf/20090624.pdf.

61 The 57th Resolution of the State Great Khural concerns the potential renegotiation of the Oyu Tolgoi investment agreement, whereby the state could acquire 50 percent of the stakes. Although its implementation is not consensual, nationalist Members of Parliament could back up the bill in a bid to increase national sovereignty, especially since the Democratic Party only retained 31 seats in the 76-seat legislature in the last elections. This borderline populist policy is still being discussed.

62 The author would like to thank Mendee Jargalsaikhan for this relevant point.

63 Being inward-looking is not synonymous with protectiveness or economic backwardness but is symptomatic of a new-found national pride.

More Than a Boon: Mongolia's Troubled Mine Sector

Mathieu Boulègue¹ (2013)

On June 26, 2013, President Tsakhiagiin Elbegdorj² was reelected for a second four-year term upon winning 50.89 percent of the vote in the first round of what was the country's sixth presidential election.³ Serving almost as a litmus test on mining policies in the young Asian democracy, the election took place amidst the backdrop of a decade-long mining boom which has, however, been tempered by calls for resource nationalism voiced by local populations negatively impacted by mining activities.

This tension has manifested itself in an increasingly visible political fragmentation between nationalist-protectionist factions and more business-prone forces within the government and the State Great Khural (the Parliament). As embodied by the ongoing struggle around the Oyu Tolgoi mining super-project, a huge copper and gold mine in the south of the country, Mongolia finds itself at a crossroads between openness to international investments needed to support the economy and demands for responsible and sustainable mining aimed at protecting national nature reserves and ensuring the protection of local populations.

A No-Trump Ballot

With a turnout of 66.5 percent of registered voters,⁴ the incumbent Democratic Party candidate heavily benefited from the support of many small political formations, in tune with its own political line, thereby limiting overall competition and voter choice. Indeed, the Civil Will-Green Party,⁵ the Mongolian National Democratic Party (MNDP),⁶ the Republican Party,⁷ and the Motherland Party⁸ had all announced in May 2013 their intention

to support the Democratic Party's candidate in the presidential election. Among these, the Civil Will-Green Party was an electoral coalition formed between the Civil Will Party and the Green Party that took part to the 2000 parliamentary elections. They subsequently merged in early 2012 ahead of the June parliamentary ballot, winning two seats in the State Great Khural. Although independent, the Green Party remains politically close to the ruling coalition, as several members work as environmental advisers to the incumbent President,⁹ and Green Party Member of Parliament (MP) Oyun Sanjaasuren now serves as Minister of Environment and Green Development. Similarly, the Motherland Party—also known as the Democratic New Socialist Party—is close to the ruling party, with several of its prominent members having served as ministers under the Democratic Party government.¹⁰

Only three candidates officially registered with the General Election Commission (GEC) to run for the post of president—that is, contenders stemming from political parties holding seats in the State Great Khural. Hence, Elbegdorj competed against former wrestling champion and MP Badnaanyambuugyn Bat-Erdene standing for the Mongolian People's Party—the former Communist Party—who obtained 42.52 percent of the votes, and the female health minister Natsag Udval from the Mongolian People's Revolutionary Party (MPRP), who garnered 6.58 percent.¹¹ Immediately after the release of the GEC's official report, the Parliament endorsed Elbegdorj's reelection and he was sworn in on July 10 in Ulaanbaatar.¹² Another notable feature of the election was the fact that the Organization for Security and Cooperation in Europe (OSCE) carried out the first Election Observation Mission to the country (after it had become a member the previous year) with the mission concluding that the election had been “free and competitive.”¹³

1 AESMA Consulting, Paris.

2 Democratic Party leader Tsakhiagiin Elbegdorj assumed the position of Prime Minister twice before being elected President in 2009. A former journalist, he spearheaded the post-Communist democratic movement in Mongolia. See: <http://www.president.mn/eng/president/biography.php>.

3 “C. Jелbjegдорж 50.23 хувийн саналаар жалалт байгууллаа,” *Shuud*, June 26, 2013, <http://www.shuud.mn/?p=249992>.

4 See the Electoral Commission results <http://www.gec.gov.mn/election2013/flashresults.html>.

5 “CWGP announced to support current President TS. Elbegdorj,” *InfoMongolia*, May 10, 2013, <http://www.infomongolia.com/ct/ci/5982>.

6 “MNDP announced not to promote its candidacy for the presidential election,” *InfoMongolia*, May 10, 2013, <http://www.infomongolia.com/ct/ci/5981>.

7 “Republican party and Motherland party to support a candidate from Democratic party,” *InfoMongolia*, May 29, 2013, <http://www.infomongolia.com/ct/ci/6064>.

8 *Ibid.*

9 See the CWGP website: <http://www.civilgreen.mn/nam/2011-01-20-07-02-22.html>.

10 “Bajgal’ orchin ногоон hogzhlijn sajdad S. Ojuuny njerijg djevshyyljehjejer bolloo,” *Gogo news*, August 20, 2012, <http://news.gogo.mn/r/109718>.

11 See “Mongol uhsyn eronhijlogchijn anhan shatny songuulijn njegdsjen dyn,” no date, <http://www.gec.gov.mn/file/batalgaajsan.html>.

12 “Mongolia president sworn in pledging rapid development,” *Business-Mongolia*, July 11, 2013, <http://www.business-mongolia.com/mongolia/2013/07/11/mongolia-president-sworn-in-pledging-rapid-development/>.

13 See the OSCE/ODIHR Election Observation Mission—Statement of Preliminary Findings and Conclusions, June 27, 2013, <http://www.osce.org/odihr/elections/103142>.

Mongolia between a Rock and a Hard Place

President Elbegdorj is seeking to achieve a balance between openness and closure to please both the electorate at home and international investors.¹⁴ The issue has polarized Mongolian politics, with two major political factions having emerged in the aftermath of the parliamentary elections and the subsequent formation of a coalition government.

On the one hand, the outcome of the latest parliamentary elections led to the formation of a nationalist-prone coalition that could sensibly renege on economic openness at the expense of foreign investors. The coalition government is currently headed by Prime Minister and Democratic Party chairman Norov Altanhuyag with lawmaker Davaajav Gankhuyag serving as Minister of Mining. Both men are considered “resource nationalists” and are known to have a tough stance regarding international mining companies and foreign investments. Furthermore, the government includes members of the People’s Revolutionary Party (MPRP) and the MNDP, who are advocating for better control over national resources. The Justice Coalition also uses its leverage in the State Great Khural to push for resource protectionism: formed in 2012 as an electoral bloc between the MPRP and the MNDP, it seeks to restrict the shares of international extracting companies and curb foreign investments.

These nationalist Members of Parliament might very well decide to increase their pressure on bills fostering greater national sovereignty, especially since the Democratic Party only retained 31 seats in the 76-seat legislature.¹⁵ Nationalist-oriented forces could, for instance, back “Resolution 57” (named after the 57th Resolution of the State Great Khural) whereby Mongolia could seek to acquire 50 percent of the stakes in the Oyu Tolgoi mine and thus ensure greater control over national resources.¹⁶

On the other hand, business-oriented political forces are trying to push for an increasingly larger part of the mining cake: the importance of foreign investments in Mongolia is constantly used by certain politicians as a leitmotif in international speeches.¹⁷ Both the ruling Democratic Party and the Civil Will-Green Party are trying

to act as a counterweight against resource nationalists. An increasing conflict of interests is occurring between business opportunities and people’s demands for responsible and sustainable mining, with the Democratic Party consequently having to adopt the political middle ground.¹⁸

The political split presently occurring over the mining issue can also be seen when analyzing the results of the presidential elections. Elbegdorj was mostly backed by the young, urban strata of the population and the middle-classes of the capital¹⁹ — he received an average of 55 percent votes in urban areas compared to 47 percent outside of Ulaanbaatar—whereas Bat-Erdene fared better in the rest of the country, especially in mining regions.²⁰ As such, a strong divide exists between urban dwellers preoccupied by the overall economic development of Mongolia and rural populations directly affected by mining activities and therefore more prone to vote for candidates with strong positions against international mining companies. It needs to be recalled that rural Mongolians are mostly herders whose way of life and subsistence economy have been considerably affected by mining activities in terms of environmental pollution and lack of sustainable development.

Taking the Path of Responsible Mining

Now that the Democratic Party has managed to secure the key political positions of president, prime minister, Chairman of Parliament, and Mayor of Ulaanbaatar, reforms to the mining laws can proceed apace.²¹ Although the president does not have the final say in mining regulations, his administration was responsible for the suspension of the issuance of mining and exploration licenses in 2010 and also initiated the complete overhaul of mining laws after setting up a working group under the President’s Office in 2011. The suspension of licenses was reconfirmed by the State Great Khural in December 2012. Since the 1997 Minerals Law, in fact, exploration licenses have halved from 6,000 to 3,000 today.²²

The first draft of the revamped Minerals Law was made public in December 2012,²³ coming under heavy

14 “Elbegdorj scrapes home,” *The Economist*, June 29, 2013, <http://www.economist.com/news/asia/21580207-foreign-investors-will-cheer-incumbents-narrow-triumph-elbegdorj-scrapes-home>.

15 See IFS Election Guide, <http://www.electionguide.org/results.php?ID=1611>.

16 See Ivanhoe Mines, “Joint response from Ivanhoe Mines and Rio Tinto delivered to Mongolian Government and members of the National Security Council,” October 3, 2011, http://www.turquoisehill.com/i/pdf/2011-10-03_NR.pdf.

17 “Hot Topic of Coal Mongolia 2013: Transportation,” *UBPost*, February 21, 2013, <http://ubpost.mongolnews.mn/?p=2928>.

18 Mendee Jargalsaihan, “Mongolian presidential election ends in ruling Democratic party’s favor,” *Eurasia Daily Monitor*, 10(124). Jamestown Foundation, July 8, 2013, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[swords\]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews\[any_of_the_words\]=mongolia&tx_ttnews\[tt_news\]=41098&tx_ttnews\[backPid\]=7&cHash=e3741ecae4002652fdd3b2f52968efa9#Uf9W-223N8F](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[swords]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews[any_of_the_words]=mongolia&tx_ttnews[tt_news]=41098&tx_ttnews[backPid]=7&cHash=e3741ecae4002652fdd3b2f52968efa9#Uf9W-223N8F).

19 “A second chance for Mongolia’s President,” *Business-Mongolia*, July 4, 2013, <http://www.business-mongolia.com/mongolia/2013/07/04/13151/>.

20 “President gets re-elected,” *Business-Mongolia*, June 27, 2013, <http://www.business-mongolia.com/mongolia/2013/06/27/president-gets-re-elected/>.

21 Jargalsaihan, “Mongolian presidential election ends in ruling Democratic party’s favor.”

22 “The mining law draft explained,” *Mongolian mining journal*, January 23, 2013, <http://en.mongolianminingjournal.com/content/43164.shtml>.

23 See Revised Minerals Law, Office of President, December 5, 2012, <http://www.president.mn/mongolian/sites/default/files/Draft%20Minerals%20Law%20as%20of%205%20December%202012%20ENG.pdf>.

criticism from both mining companies and investors. As such, the draft law restricts the issuance of mining licenses—prospecting licenses will be reevaluated every year—as well as state involvement in the ownership of shares.²⁴ The new draft law also takes into consideration environmental protection through the framework of the 2009 Law on the Prohibition of Minerals Exploration in Water Basins and Forested Areas as well as local development for populations concerned by mining activities.

President Elbegdorj declared in February 2013 that there needed to be greater national oversight of international mining projects through the presence of Mongolian representatives on the managing boards of concerned companies as well as greater responsibility in managing costs and allocation of resources.²⁵ This was further reinforced by the April 2013 amendments to the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (SSI Regulation) of May 2012: new provisions in the foreign investment law differentiate bids made by state-owned enterprises (SOE) from those made by foreign companies²⁶ as well as introduce monetary thresholds for international private actors.²⁷ Provisions of the draft law also include a long-term regulatory framework concerning environmental protection (especially against pollution of waters and pastures), the fight against corruption, and the integration of local communities in the decision-making process.

In order to keep tabs on extraction-related legislative changes, public debates are now being organized under the auspices of the Citizen's Hall of Mongolia in order to listen to the suggestions and concerns of interested parties.²⁸ Monthly government-approved "Transparent Mining" press conferences are also held to keep the public informed about mining activities in the country, including relations with international extracting companies.²⁹

Contention over Oyu Tolgoi

A pertinent example of these mining intricacies involved is embodied by the quarrel currently pitting Anglo-

Australian company Rio Tinto and its partner Canadian Turquoise Hill against the Mongolian state over the Oyu Tolgoi copper and gold mine super-project located in the South Gobi Desert. The open pit and underground mineral deposits constitute the world's second-largest mine: the complex should produce 450,000 tons of copper a year—accounting for three percent of worldwide production—as well as nine tons of gold in the first decade of operation. Upon reaching full production, slated for 2021, it is expected to account for 35 percent of Mongolia's annual GDP. The right to exploit the deposits were given in 1999 to the Canadian firm Ivanhoe Mines, but it was only after the Mongolian government passed legislation to open the shafts to foreign investments that a joint-venture agreement was signed in October 2009 between the Mongolian state, Rio Tinto, and Turquoise Hill (formerly Ivanhoe Mines), both with a combined 66 percent of the shares. On July 9, 2013, the Oyu Tolgoi copper concentrator plant shipped its first ever exports consisting of 40,000 tons of copper concentrate.³⁰ Operations at the Rio Tinto unit had begun on time in early 2013.

Despite these positive results, the Mongolian government has been putting pressure on Rio Tinto and its business partner Turquoise Hill since last February, when it was revealed that the first phase of the project was US\$2 billion more expensive than initially planned, standing currently at \$6.6 billion.³¹ A parliamentary session was convened in early February 2013: the government and Rio Tinto met several times over the course of the year to discuss at least six points of contention, including development cost overruns, the alleged lack of Rio Tinto's accountability and transparency, employment and contractors, corporate governance, environmental issues, as well as the absence of timely reporting.³²

Further disagreements occurred over the summer concerning the financial feasibility of the second phase of the project after Rio Tinto was unable to agree with the Mongolian government on the financing method for the underground portion of the mining complex—the expansion of which could cost as much as \$5 billion.³³ The Executive Director of Erdenes Oyu Tolgoi,

24 "The mining law draft explained."

25 "President: Time has come for Mongolia to take Oyu Tolgoi matters into its own hands," *Mining.com*, February 4, 2013, <http://www.mining.com/president-time-has-come-for-mongolian-government-to-take-oyu-tolgoi-matters-into-its-own-hands-94654/>.

26 "Recent Changes to Mongolia's Foreign Investment Laws: Opportunities and Challenges for Foreign Investors," *JD Supra Law News*, May 29, 2013, <http://www.jdsupra.com/legalnews/recent-changes-to-mongolias-foreign-inv-16913/>.

27 "Mongolia's evolving foreign investment regime," *East Asia Forum*, January 9, 2013, <http://www.eastasiaforum.org/2013/01/09/mongolias-evolving-foreign-investment-regime/>.

28 Jargalsaihan, "Major revisions of Mongolian mining regulations is underway."

29 For the latest example, see "Transparent Mining reports on the nation's mining activities," *UBPost*, July 30, 2013, <http://ubpost.mongolnews.mn/?p=5249>.

30 "Oyu Tolgoi's 40,000 tons of copper concentrate ready for export," *UBPost*, July 7, 2013, <http://ubpost.mongolnews.mn/?p=4742>.

31 "Mine audit launched to resolve Oyu Tolgoi cost overrun," *UBPost*, April 22, 2013, <http://ubpost.mongolnews.mn/?p=3701>.

32 "Oyu Tolgoi shareholders unable to reach agreement," *UBPost*, March 3, 2013, <http://ubpost.mongolnews.mn/?p=3169>.

33 "Rio announced 1,700 redundancies," *Business Council of Mongolia*, August 15, 2013, <http://www.bcmongolia.org/en/mongolia-business/news/726-rio-announced-1,700-redundancies>.

Tserenbat Sedvanchig, was subsequently demoted and replaced by MNDP chairman Davaadorj Ganbold.³⁴ The announcement of the project's suspension in late July even caused the share price of Turquoise Hill to drop 20 percent of its value.³⁵ In the meantime, Rio Tinto replied with a tit-for-tat gesture by suggesting that some 1,700 workers and contractors might be laid off from the mining operations at Oyu Tolgoi.³⁶

In response, President Elbegdorj announced that the "time has come for the Mongolian government to take Oyu Tolgoi matters into its own hands."³⁷ At the end of the day, the government is afraid of how much the mining project will actually cost: due to the "called sums" principle stipulated in the 2009 agreement,³⁸ Mongolia has to pay for a part of the cost overruns equivalent to its 34 percent shares. The state-owned firm Erdenes Oyu Tolgoi has a purchase option of another 16 percent after 30 years, as per the terms of the agreement.³⁹ As evidenced by the strained relations, Oyu Tolgoi might represent a landmark in the way Mongolia deals in the future with foreign actors in the national mining sector.

An Uncertain Future

In spite of the mining woes somewhat darkening the picture, Mongolia remains a booming economy characterized by a growth rate of 12.3 percent in 2012 and a World Bank forecast of 13 percent for 2013.⁴⁰ Albeit the figures have decreased since it recorded a 17.5

percent growth rate in 2011: this was partly caused by a structural fiscal deficit of 8.4 percent of GDP,⁴¹ which sharply contrasts with the 2 percent limit provisioned by the Fiscal Stability Law. Furthermore, little progress was made in modernizing the country's economy, addressing the worrying inflation rate (8.8 percent in July 2013⁴²), and tackling rampant urban poverty. Calls for resource nationalism hardly counterweight the need for foreign investments that Mongolia desperately depends upon. This was evidenced by the issuance in November 2012 of \$1.5 billion worth of governmental bonds in debt—dubbed the "Chinggis Bonds" by the local media—aimed at raising money on international financial markets. The multi-year bonds were successfully traded at the end of November 2012 and the money has been used ever since to finance major development projects such as upgrading railway infrastructure, renovating power plants, and development of the light industry sector.⁴³

Furthermore, the mining boom has not yet managed to decrease the country's dependency on its neighbors. Despite attempts to assert itself as a diplomatically independent actor⁴⁴ Mongolia remains constrained between Russia's and China's strategic clout: it heavily depends on both in terms of commerce and trade, and especially on their energy and freight capabilities for transporting its resources abroad. If Mongolia wants to sustain its economic growth, it will have to learn how to allocate its financial assets somewhat better, and avoid any "resource curse."⁴⁵

34 "TS. Sedvanchig was dismissed and replaced by Davaadorj Ganbold," *InfoMongolia*, August 19, 2013, <http://www.infomongolia.com/ct/ci/6502>.

35 "Oyu Tolgoi LLC Executive Director Fired Following Rio Dispute," *Bloomberg Businessweek*, August 19, 2013, <http://www.businessweek.com/news/2013-08-19/oyu-tolgoi-llc-executive-director-fired-following-rio-dispute>.

36 "Rio Tinto lays off 1,700 Oyu Tolgoi mine workers as dispute drags on," *Financial Post*, August 18, 2013, <http://business.financialpost.com/2013/08/14/rio-tinto-lays-off-1700-oyu-tolgoi-mine-workers-as-dispute-drag-on/>.

37 "President: Time has come for Mongolia to take Oyu Tolgoi matters into its own hands," *Mining.com*, February 4, 2013, <http://www.mining.com/president-time-has-come-for-mongolian-government-to-take-oyu-tolgoi-matters-into-its-own-hands-94654/>.

38 Namely payments made to capital expenditures proportional to share ownership. See Brian White, "In depth analysis: OT dispute and expenditure overruns," *The Mongolist*, March 10, 2013, <http://www.themongolist.com/blog/government/58-in-depth-analysis-ot-dispute-and-expenditure-overruns.html>.

39 See Turquoise Hill, Oyu Tolgoi Overview: http://www.turquoisehill.com/s/Oyu_Tolgoi.asp.

40 "World Bank Cuts Growth Forecast for Mongolia as Exports Slow," *Bloomberg*, April 30, 2013, <http://www.bloomberg.com/news/2013-04-30/world-bank-cuts-growth-forecast-for-mongolia-as-exports-slow.html>.

41 "The World Bank: Mongolia Economic Update April 2013," *Business-Mongolia*, April 30, 2013, <http://www.business-mongolia.com/mongolia/2013/04/30/the-world-bank-mongolia-economic-update-april-2013/>.

42 See "Mongolia inflation rate," *Trading economics*, <http://www.tradingeconomics.com/mongolia/inflation-cpi>.

43 "As of today, 347 million USD is left from the Chinggis Bond," *InfoMongolia*, May 20, 2013, <http://www.infomongolia.com/ct/ci/6020>.

44 See my previous paper: "Landlocked assertiveness: Mongolia's restructured realism in a more complex world?," *Central Asia Economic Paper* No. 4, October 2012.

45 "The World Bank: Mongolia Economic Update April 2013," *Business-Mongolia*, April 30, 2013, <http://www.business-mongolia.com/mongolia/2013/04/30/the-world-bank-mongolia-economic-update-april-2013/>.

Unkept Human Security Promises in Developing Countries: The Case of Mongolia

Mendee Jargalsaikhan¹ (2012)

The human security concept posits the individual as the primary referent of security instead of the state. A wealth of knowledge has been produced and numerous practical steps taken to advance this conceptual shift in international relations and security studies.² However, the mainstream human security literature has centered on “failing,” “failed,” or “repressive” states and the efforts of developed countries and international organizations to solve human security problems in these countries. Nevertheless, the latter are a minority compared with a much larger number of developing states struggling to meet human security needs, even though they are not engaged in external or internal armed conflicts. This forgotten aspect of human security studies requires a multidisciplinary approach to explain the causes and consequences of their non-conflict related human insecurity. While political leaders and governments of developing nations are used to making what amount to appealing pledges regarding human security by joining major international endeavors (e.g. Millennium Development Goals) and providing flashy reports on human development, human rights, and good governance, their countries’ human security concerns have arguably been neglected by academic and policy communities alike.

Mongolia is a typical example of a country belonging to this particular group. At first glance, it should not have any human security problems. A mostly homogenous population of 2.7 million has not suffered any armed conflicts in the last seven decades. The Mongolian transition to democracy and a market economy is lauded by international communities, and has not regressed in the 2000s. With abundant minerals and over 30 million head of cattle, moreover, the country ranks as the nineteenth largest in the world in terms of area. Since 1992, it has been one of few developing nations that has explicitly prioritized human security in its national security

statements and developmental strategies. The Mongolian government defines human security as the “condition for human beings to live without threats and mistreatment.”³ The revised National Security Concept identified four human security priorities: public health, food security, security of the living environment, and protection from transnational crimes.⁴ Operationalization of the human security concept by Mongolian academic and policy communities aligns with the broader definition of human security laid down in the 1994 UN Human Development Report.

Closer inspection, however, reveals that satisfactory human security conditions have not been achieved in the country. This paper identifies three factors responsible for the deterioration in human security in a developing country—using Mongolia as an illustrative case. Firstly are the unprecedented consequences of political and economic transitions, mostly oriented toward building a liberal democracy and market economy. Nation-specific geographic and ecological features, especially in landlocked countries, constitute the second factor. The third one is directly linked to the ability of the state to provide security, social justice, and sustainable development for its citizens.

A Brief Overview of Human Security Prior to Democratic Transition

Similar to many small states, the fate of Mongolia has been susceptible to the geo-strategic rivalries of major powers, in particular Russia and China. Divided/separated from Buryatia in the Russian Federation, and Inner Mongolia in China, only the Republic of Mongolia maintained its independence as a Soviet satellite state between 1921 and 1989. Thereafter, upon the collapse of the Soviet Union, Mongolia began to be regarded as an outpost of democracy sandwiched between two continental neighbors. The human security challenges have been different in each of the political and economic incarnations the country has experienced since 1911.

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- 1 Mendee Jargalsaikhan served as Mongolia’s Defense Attaché to the United States, Chief of the Foreign Cooperation Department of the Ministry of Defense of Mongolia, and Senior Fellow at the Mongolian Institute for Strategic Studies. He is a graduate student at the Political Science Department of the University of British Columbia (UBC).
 - 2 For a review of the human security debate, see Roland Paris, “Human Security: Paradigm Shift or Hot Air?” *International Security* 26, no. 2 (2001): 87–102; Taylor Owen, “Human security—conflict, critique and consensus: colloquium remarks and a proposal for a threshold-based definition,” *Security Dialogue* 35, no. 3 (2004): 373–387; Shahrbanou Tadjbakhsh and Anuradha Chenoy, *Human Security: Concepts and Implications* (New York: Routledge, 2007).
 - 3 Wayne Nelles, *Reconciling Human and National Security in Mongolia: A Canadian Perspective* (Vancouver: Institute of Asian Research, 2000), 18.
 - 4 *The National Security Concept of Mongolia* (Ulaanbaatar: Government Press, 2011).
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Failed State (1911-1924)

Until 1911, Mongolia was a colony of the Manchu-ruled Chinese Empire, led by the Qing Dynasty, for over three hundred years. After the country's brief independence from China in 1911, its sovereignty was again jeopardized by a covert deal between Moscow and Beijing. Mongolian territory was occupied first by the Chinese military in 1919-1921 and then by fleeing military units of the Tsarist Army.⁵ In 1921, Mongolian nationalists fought for their independence with the assistance of Soviet Russia and, consequently, the country became the second Communist state in the world to be established. Up to 1925, Soviet and Mongolian military units conducted a series of military operations against the remaining military units of the Tsarist Army.⁶

According to historical sources, the human security situation in the beginning of the twentieth century was particularly severe. Mongolians suffered from frequent foreign invasions and armed banditry. Numerous nationalist independence movements were organized in both Inner and Outer Mongolia. Since there was not a stable, capable government in place until 1921, there was a complete absence of public services. The economy centered on animal husbandry, trade was run by Chinese merchants, and mines were operated by foreigners.⁷ There was no fully functional government that could control the vast territory and protect its population from various warring factions. Opium was widely used in urban areas and various contagious diseases spread among nomads. Mongols were vulnerable to armed conflicts, diseases, natural disasters, as well as economic hardships. In contemporary terms, Mongolia would have been classified a "failed state" comparable to Afghanistan in terms of its dire political, economic, and social situation.

Totalitarian Regime (1924-1952)

Following the 1921 revolution, Soviet Russia paid special attention to Mongolia because of its geo-strategic importance in the protection of its Far Eastern territories, as well as its desire to spread Communist ideology in Asia. Moscow therefore used Mongolia as a base to support

various revolutionary movements in Tibet and China.⁸ The Soviets eliminated local nationalist and religious leaders and consolidated a secular Communist regime after the death of the local religious leader in 1924.⁹ By that time, only 10 percent of the former revolutionary leaders remained in the government; the rest were either executed or marginalized by the secret police.¹⁰ With Soviet support, Marshall Khorloogyn Choibalsan, one of the revolutionary leaders, consolidated his power from 1929 till his death in 1952 and exercised total control over Mongol society. The totalitarian regimes in Ulaanbaatar systematically massacred 30,000 people, mostly intellectuals and monks.¹¹ Marshall Choibalsan created a Stalinist personality cult as the fatherly leader of the nation. The repressive regime controlled the entire society through its extensive secret police network and employed explicit violence and intimidation against the population. People were executed and imprisoned without fair trial on trumped up, unproven charges of counterrevolutionary activities and connections with foreign governments.

The Communist government, with extensive assistance from the Soviet Union, also alleviated the livelihoods of people by providing employment and public services (health, education, safety)—in marked contrast to earlier periods. Progress was made particularly in the field of public health, which saw Soviet doctors training Mongolian counterparts, helping to eradicate numerous widespread contagious diseases and reducing opium usage. After the Second World War, the government was able to provide public services to most remote areas. Although the regime effectively laid the foundations for infrastructure, health care, and education, and other public services for Mongols with direct Soviet assistance,¹² the population was vulnerable to internal and external armed conflicts and state repression. Indeed, Mongolia was involved in interstate armed conflicts. The Soviet and Mongolian militaries fought against the Japanese forces in 1939, and the Mongolian army participated in the liberation operation in northern China in 1945.¹³ Whereas sources differ, it is calculated that 1,068 Mongolian military personnel lost their lives in these wars.¹⁴

5 Thomas Ewing, "Russia, China, and the Origins of the Mongolian People's Republic, 1911-1921: A Reappraisal," *The Slavonic and East European Review* 58, no. 3 (1980): 399-421; Gerard Friters, "The Prelude to Outer Mongolian Independence," *Pacific Affairs* 10, no. 2 (1937): 168-189.

6 John MacMurray, "Secret Sino-Soviet Negotiations on Outer Mongolia, 1918-1925," *Pacific Affairs* 66, no. 4 (1994): 539-563.

7 See Bat-Erdene Batbayar, *Twentieth Century Mongolia* (Cambridge: University of Cambridge Press, 1999); George Murphy, *Soviet Mongolia* (Berkeley: University of California Press, 1966); Robert Rupen, *How Mongolia is Really Ruled* (Stanford, CA: Hoover Institution Press, 1979).

8 Rupen, *How Mongolia is Really Ruled*, 23-36.

9 William Ballis, "The Political Evolution of a Soviet Satellite: The Mongolian People's Republic," *The Western Political Quarterly* 9, no. 2 (1956): 293-328.

10 *Ibid.*, 304.

11 Out of this number who were executed in the 1930s, 17,000 were monks in addition to 20-25,000 monks who were persecuted in 1920s. A further 20-30,000 Mongolian refugees entered Inner Mongolia and Xinjiang, escaping from the brutality of the Communist regime. See Shagdariin Sandag and Harry Kendall, *Poisoned Arrows: The Stalin-Choibalsan Mongolian Massacres, 1921-1941* (Boulder, CO: Westview Press, 2000); Batbayar, *Twentieth Century Mongolia*, 309. The Mongolian population at that time is estimated at between 647,000-800,000. There were 85,677 monks in the early 1930s. See Xiaoyuan Liu, *Reins of Liberation* (Washington, D.C.: Woodrow Wilson Center Press, 2006), 23; Murphy, *Soviet Mongolia*, 180.

12 Rupen, *How Mongolia is Really Ruled*, 53-57; 67-70.

13 See Alvin Coox, *Nomonhan: Japan Against Russia, 1939, Volume 1-2* (Stanford: Stanford University Press, 1985).

14 See *Mongol tsergiin tuuhiin товчоон* (Ulaanbaatar: Institute of Defense Analysis, 1996), 331, 337.

Authoritarian Regime (1952-1990)

When the “fatherly leader” died in 1952, “Mongolia went from a cult of personality to control by bureaucracy,” as Rupen put it.¹⁵ A Soviet-educated economist Yumjaagyn Tsendenbal became prime minister and implemented large-scale economic reform, changing the agrarian nomadic system into a centrally planned Soviet-style economy. Mongolia’s economy became tied closely to the Socialist economic bloc and dependent on assistance from the Soviet Union and member states of the Council for Mutual Economic Assistance (CMEA). Mining and light industries were established, collective community systems were introduced, and crop production was expanded. The government’s ability to extend public services such as health care, education, public safety, and social welfare to the population, especially in remote areas, increased dramatically with Soviet assistance. The government sustained a high level of investment in housing, especially in the capital city, and established industrial centers like Erdenet, a joint copper mine at Darkhan, and other provincial centers.

Although state-organized systemic violence against the population (e.g. mass executions) disappeared, the party bureaucracy still maintained close control over the population through a network of informants run by the State Security Committee. The party pursued aggressive activities of political indoctrination and controlled every aspect of human life through political organizations, starting from elementary school. Several types of mass mobilization existed in Mongolia. First, all males aged 18-28 had to complete three years of military service and stay in the reserve force until the age of 45 while maintaining periodic and scheduled mobilization.¹⁶ Second, students were mobilized in spring, summer, and fall seasons to assist with animal husbandry, agriculture, and harvesting. Lastly, people had to participate in civil defense training and party campaigns.

Political and religious freedom was restricted, although nationalism and dissenting views were permitted briefly in 1950s following de-Stalinization in the Soviet Union and the Hundred Flowers Movement in China.¹⁷ These freedoms were short-lived, however, as party leaders later demoted and marginalized critical intellectuals and

party senior members from the inner circle. Ownership of private property was strictly discouraged and eventually banned. Most cattle herds were confiscated and all other economic entities were owned by the party-state. While this system kept everybody at a similar social-economic status, it also laid the foundations for corrupt practices. People paid bribes, exploiting relationships with influential party officials to bypass party-directed postings in remote areas, gain educational opportunities, and dodge military duties.

Even though a judicial system was established in Mongolia, the party maintained ultimate control over political cases. The state purged and marginalized political dissenters in the name of national security by simply labeling them as Chinese spies or fabricating connections to capitalist states. Families of dissenters and Chinese or Mongols with a Chinese ethnic background were denied political and economic status and remained under state surveillance, subject to state harassment.¹⁸ This situation was typical of most Communist states in Europe and the Soviet republics, with the Sovietization process of Mongolia most similar to Bulgaria¹⁹ and the Central Asian republics.²⁰

Human insecurity in pre-democratic Mongolia was caused by systematic state-perpetrated violence, especially early on; that is, until the demise of the totalitarian regime in 1952. The state also experienced foreign armed interventions until 1921, and again in 1939, interstate conflicts in 1936-1945, and was involved in the Sino-Soviet conflicts between 1964 and 1986, which led to Mongolia hosting Soviet military units. Although the country experienced four earthquakes of a magnitude greater than 8 on the Richter scale between 1905-1957,²¹ suffered from flash flooding in 1966 and 1982, and was periodically affected by *zud*, extreme cold, devastation was minimal due to the low level of urbanization and the relatively good preparedness of the state organs. The state’s ability to protect its population from non-violent threats was therefore institutionalized effectively, with Soviet assistance, in comparison to the beginning of the twentieth century. However, the ability to provide these services deteriorated due to the political and economic transition in 1990.

15 Rupen, *How Mongolia is Really Ruled*, 73.

16 See *The Constitution of the Mongolian People’s Republic* (Ulaanbaatar: Government Press, 1962).

17 See Robert Tucker, “The Politics of Soviet De-Stalinization,” *World Politics* 9, no. 4 (1957): 550–578; Dennis Doolin, “The Revival of the ‘Hundred Flowers’ Campaign: 1961,” *The China Quarterly* 8 (1961): 34–41.

18 See Uradyn Erden Bulag, *Nationalism and Hybridity in Mongolia* (Oxford: Oxford University Press, 1998), 160–162; Ole Bruun and Ole Odgaard, eds., *Mongolia in Transition: Old Patterns, New Challenges* (Nordic Institute of Asian Studies, 1996), 38; and Alan Sanders, *Mongolia: Politics, Economics and Society* (Boulder, CO: Lynne Rienner Publishers, 1987), 149–152.

19 Philip Nichols, Siedel George, and Kasdin Matthew, “Corruption as a Pan-Cultural Phenomenon: An Empirical Study in Countries at Opposite Ends of the Former Soviet Empire,” *Texas International Law Journal* 39 (2003): 216–250.

20 Henry Bradsher, “The Sovietization of Mongolia,” *Foreign Affairs* 50, no. 3 (1972): 545–553; Shirin Akiner, *Central Asia: A Survey of the Region and the Five Republics* (Geneva: UNCHR, 2000), 6–14.

21 I. Baljinyam, ed., *Ruptures of major earthquakes and active deformation in Mongolia and its surroundings* (Washington, D.C.: The Geological Society of America, Inc., 1993).

The Three Main Factors of Human Insecurity

Unprecedented Consequences of Transition

Human security in post-Socialist countries has mostly deteriorated as a result of the unprecedented consequences of political and economic transition. In the Mongolian case, poverty and non-systematic violence became the most observable concerns. In 1990, the country underwent a simultaneous political and economic transition similar to most of the Socialist countries in Central and Eastern Europe and the Soviet republics. Three important conditions combined specifically in Mongolia. First, the Sino-Soviet rapprochement (1986), which was followed by the withdrawal of the Soviet military forces from Mongolia and Chinese initiatives of mutual reduction of armed forces in the border region,²² created a favorable external security environment. Second, Russia's focus on its own political and economic problems weakened its leverage over neighbors like Mongolia. Third, democratic opposition received wider public support, and in many ways Mongolia's political transition was similar to that of Central and Eastern Europe.

The political transition went smoothly compared to many other Soviet republics, in particular those in Central Asia. The one-party system was replaced by multiparty semi-parliamentary institutions, in which executive and legislative bodies operated under a principle of mutual checks and balances. Democratic elections became the only way to change political officials at national and provincial levels. Unlike other Soviet republics, Mongolia did not slide back into authoritarianism in the 2000s and has maintained a "free" status according to Freedom House and other democracy watch institutes. The adaptation of liberal democratic values and abolishment of systematic state repression provided the country opportunities to integrate with a wider international community, to receive assistance from developed nations, and to provide rights defined by the 1948 Universal Declaration of Human Rights to its people.

The economic transition in Mongolia, on the other hand, was much more problematic from the outset. Even though Mongolia started its economic restructuring in 1986, following the Soviet Union's *glasnost*' and *perestroika* policies, it faltered mainly due to external causes.²³ First, Mongolian external trade dropped substantially following

the collapse of the trade regime of the Soviet Union and the CMEA. Previously, 85 percent of Mongolia's external trade was with the Soviet Union, and the rest with CMEA members. The CMEA collapse resulted in a 61 percent drop in imports and 53 percent drop in exports in 1991.²⁴ Second, Soviet subsidies amounting to US\$800-900 million per year, equivalent to 30 percent of the national GDP, ended in 1991,²⁵ and key import staples (e.g. gasoline, rice, flour, oil, etc.) suddenly reflected world market prices. In 1990-1993, main staples were provided through rationing systems on account of scarce food imports. A loss of their main external market and subsidies led to sudden structural collapses in all state industries, public services, and social welfare systems.

Macro-economic restructuring was completed with assistance from major international financial institutions such as the World Bank (WB), International Monetary Fund (IMF), and Asian Development Bank (ADB), as well as donor nations such as the United States and Japan. As a result, GDP growth started at 2.3 percent in 1994. Growth has continued due to the increase in price and demand of key Mongolian mineral exports such as copper and coal. In spite of the global economic crisis in 2009-2010, Mongolia's GDP grew 20.8 percent and is forecast to reach US\$2,782 per capita in 2013 as major mining projects commence production.²⁶

Despite these positive macroeconomic indicators, Mongolians became vulnerable to poverty and unsystematic violence. According to public opinion polls of the independent Sant Maral Foundation, people indicated the deteriorating economic situation (i.e. unemployment, poverty, inflation) and law enforcement as the top social problems for Mongolia even after two decades of transition.

Poverty prevailed following implementation of the neoliberal "shock therapy," which included the liberalization of prices and trade, abolition of subsidies, privatization of state sector assets, and reform of fiscal and financial systems.²⁷ Economic hardships in 1992-1996, left 30 percent of the population in poverty and unemployment remained high.²⁸ Poverty was aggravated by the heavy loss of cattle in the *zud*: livestock loss amounted to 11 million cattle in 1999-2002 and 8 million in 2010, accelerating internal migration to semi-urban areas.²⁹ The World Bank Report indicated in 2006 that "poverty in rural areas stood at 43

22 See Bonnie Glaser, "China's Security Perceptions: Interests and Ambitions," *Asian Survey* 33, no. 3 (1993): 252-271.

23 See *Mongolia Country Economic Memorandum Towards a Market Economy* (Washington, D.C.: World Bank, 1991).

24 See "Programme Assistance Approval Document," *Report*. USAID, Washington, D.C., 1991.

25 See "Results Review and Resources Request," USAID, 1995.

26 See "Mongolia Quarterly Economic Update," World Bank, 2011, <http://www.worldbank.org/en/news/2011/11/08/mongolia-quarterly-economic-update-november-2011>.

27 See Morris Rossabi, *Modern Mongolia: From Khans to Commissars to Capitalists* (Berkeley: University of California Press, 2005).

28 See "Mongolia Poverty Assessment Report," *Report* No. 35660-MN. World Bank, Washington, D.C., 2006.

29 "Dzud Disaster Financing and Response in Mongolia," World Bank, 2011, http://reliefweb.int/sites/reliefweb.int/files/resources/Full_Report_4070.pdf.

percent, while in urban areas it was 30 percent.³⁰ Although poverty alleviation has been one of the main goals over the last two decades, measures have remained largely unsuccessful. In August 2010, when reviewing progress toward the Millennium Development Goals, UN and Mongolian experts concluded that poverty, gender equality, and environment goals were progressing slowly and even showing a regressing trend.³¹ Similarly, unemployment has not been reduced noticeably since 1995. According to the National Statistical Office, the official unemployment rate, which usually fluctuates between 10 and 12 percent, reflects only people who are registered as unemployed. In reality, the numbers of unemployed people and those who work in the informal sectors remain considerably high. Like many other developing countries, poverty along with unemployment is a key factor in human insecurity in post-Communist Mongolia.

Table 1. Ratings of Social Problems in Mongolia, In Percent

Rating of Socio-Political or Economic Problems In Mongolia Today (Nationwide)	2008	2009	2010	2011
Unemployment	22.5	28.8	35.7	39.5
Standard of living/poverty/income	22.1	21.5	18.3	16.8
Inflation/price increases	21.9	13.2	9.5	5.9
Law enforcement	5.8	6.3	6.7	7.5
Corruption	5.3	6.8	4.2	4.5
Economy/manufacturing/mining	5.0	6.6	7.6	6.4
Education	4.9	4.3	5.4	4.0
Social justice	3.7	4.1	3.4	3.7
Ecology/environment	1.8	2.3	4.1	4.7
State administration	1.6	2.3	2.1	2.6
Social justice	3.7	4.1	3.4	3.7
Ecology/environment	1.8	2.3	4.1	4.7
State administration	1.6	2.3	2.1	2.6

Source: Politbarometer Surveys of the Sant Maral Foundation, <http://www.santmaral.mn/en/publications>

Mortality rates are another salient indicator of the worsening human security situation in Mongolia. Similar to other developing nations, the main causes of human mortality are disease, disasters, and social violence. Between 1998 and 2010, around 15,000 Mongolians lost their lives annually due to disease and other health problems. Another 1,000 Mongolians died from natural disasters in 2005-2010.³² The Mongolian health care service is affected by the economic hardships and is still in the process of re-structuring according to market economic principles. As accessing quality public medical services (diagnosis, treatment) has become limited, the upper classes have begun to prefer the services of private professionals and visit medical facilities in China, South Korea, and Japan. However, this leaves the majority of the mid- and low-income families at risk. Besides disease and disasters, an increasing number of people have lost their lives as a result of crimes, according to the National Statistical Office and General Police Department. In 1995-2010, over 22,000 deaths resulted from crimes, including traffic accidents, and social violence. About 70 percent of crimes were committed by unemployed people while 30 percent were intoxicated.³³

Social violence is becoming a new phenomenon in Mongolia. Four common types of violence can be discerned: (1) crimes, including traffic accidents; (2) economically motivated social violence (e.g. clashes among artisanal miners, nomads, small- or medium-sized mines); (3) ethnically motivated violence directed at Chinese nationals and businesses in Mongolia; and (4) politically motivated violence, which usually occurs following elections. Mongolia has long been lauded for its peaceful democratic transition. But following the disputed parliamentary election on June 29, 2008, a demonstration of over 10,000 people turned into a violent clash with the police, killing six people, injuring many more, and resulting in the declaration of a state emergency.³⁴ In the absence of armed conflicts, insurgencies, terrorist groups, and government repression against its population, non-systematic violence is nonetheless a major security concern of Mongolia's public opinion.

30 In 2002, two years after the Millennium Development Goals (MDGs) of eradicating poverty, hunger, and disease by 2015 were adopted by UN member states, the World Bank reported that 36 percent of the population (about 900,000 people) in Mongolia was living in poverty. See "Mongolia Poverty Assessment Report."

31 "Mongolia is reporting on its progress towards the Millennium Development Goals," UNDP, August 6, 2010, <http://www.undp.mn/mdg-news060810.html>.

32 See Statistical Yearbooks and Social Economic Situation Reports of the National Statistics Office of Mongolia, http://www.nso.mn/v3/index.php?page=free_access.

33 See Statistical Yearbooks and Social Economic Situation Reports of the National Statistics Office of Mongolia, http://www.nso.mn/v3/index.php?page=free_access and Reports of the General Police Department of Mongolia, <http://www.police.gov.mn/statistic-medee-menu>.

34 This was the first ever invocation of the martial law in Mongolia. Five people were killed in the riots (the police are suspected of being responsible for these deaths), one from asphyxiation in a fire; a further 221 demonstrators and 108 police personnel were injured. See Jargalsaikhan Mendee and David Last, "Whole of Government Responses in Mongolia: From Domestic Response to International Implications," *The Pearson Papers* 11 (2008), 1-22. This incident received widespread coverage in the international press. For instance, "Mongolia calls state of emergency," *BBC News*, July 1, 2008, <http://news.bbc.co.uk/2/hi/asia-pacific/7483286.stm>; "Protesters clash with police in Mongolia over election," *New York Times*, July 1, 2008, <http://www.nytimes.com/2008/07/01/world/asia/01iht-mongol.5.14143124.html>; "Mongolia declares state of emergency as riots kill five," *Guardian*, July 2, 2008, <http://www.guardian.co.uk/world/2008/jul/02/1>.

Another observable change following the transition has been a demographic shift, which also contributes to the rise in poverty and non-systematic violence. In the past, the mobility and residency of the Mongolian population was strictly planned, monitored, and enforced by the party-state and the security services. As the government abolished these controls, three main shifts have occurred: out-migration, urbanization, and mining-related movements.

Outward migration could be labeled as economic migration. As the economy stumbled in the 1990s and freedom of travel became possible, many Mongolians migrated to the United States, Germany and Europe, South Korea, and Japan. The 2010 census indicates that 107,140 Mongolians reside abroad; however, other sources claim the number already exceeds 150,000, including undocumented immigrants.³⁵ Many of these migrants provide remittances to their families in Mongolia, but they are also vulnerable to transnational crimes such as drug and human trafficking.³⁶

The second shift is from rural areas to urban and semi-urban areas, also known as urbanization and suburbanization. The population of Ulaanbaatar almost doubled from 543,600 in 1990 to 1,161,800 in 2010, and the semi-urban population has also noticeably increased.³⁷ The population density in Ulaanbaatar today equals 246.8 persons per km² in comparison to 0.7-1.4 person per km² in rural areas. Nomads continue to live in rural areas and have maintained their traditional lifestyle, which is totally dependent on cattle, pasture, and climate, and they continue to live in a *ger* (yurt). Semi-urban settlements are found on the outskirts of cities and centers of provinces and counties, former crop plantation centers, and mines. Some semi-urban settlers, especially those living on the outskirts of the urban centers, maintain traditional dwellings, *ger*, and agrarian and herding practices. However, these lifestyles have changed dramatically for several reasons. First, access to public services and provision of goods and products in rural areas has deteriorated. Second, the government abolished control of the mobility and residency of its citizens. Third, the dismantlement of agricultural centers (i.e. crop plantation) and devastating natural disasters forced

herdsmen to move into urban centers. This demographic shift overburdened the government's ability to provide public services in urban centers and also improve services in rural areas.

The third shift has resulted from increased mining developments. As the economy suffered in the 1990s, people started looking at all the potential ways to generate income. Informal miners exploited abandoned coalmines, such as that in Nalaikh, 40 kilometers south of the capital city, and other gold and fluorspar deposits. Artisanal miners establish temporary settlements near bigger mines or abandoned mining sites. Although sources differ greatly, between 100,000 and 200,000 people are involved in artisanal and small-scale mining operations in Mongolia.³⁸ Grayson concluded that these artisanal mining activities cause environmental degradation and promote social violence, but the state lacks resources to enforce regulations against artisanal mining since it is informal and occurs in remote areas.³⁹ Further, settlements near the bigger mines such as Oyu-Tolgoi (a copper-gold mine) or Tavan Tolgoi (a coal mine) are becoming new semi-urban centers, attracting nomads to sell their products and benefit from their infrastructure. As highlighted by Murray, informal gold mining is recognized as "a major global phenomenon, with an estimated 13 million active participants worldwide."⁴⁰ In addition to environmental pollution, artisanal mining is associated with low occupational safety, severe health problems, and criminal and social violence.

Apparently, this demographic shift will continue into the near future and complicates the government's ability to provide security, social justice, and sustainable development for its citizens not only in crowded urban centers but also in remote rural areas. As major mines and construction projects (e.g. industrial complex in South Gobi, international airports, and regional centers) commence, demographic shifts will follow in their wake. What is required is both a mid- and long-term comprehensive strategy and resources to alleviate poverty, the improvement of mechanisms to protect people from violence, as well as dealing with demographic shifts and population movements.

35 See *The Result of the 2010 Census of Mongolia*, http://www.toologo2010.mn/doc/Main%20results_20110615_to%20EZBH_for%20print.pdf.

36 A transnational crime and a global threat to human security, Mongolians are becoming increasingly susceptible to the phenomenon of human trafficking. Since 2005, the country has been identified as "a source and transit country for women and men trafficked for the purposes of sexual exploitation and forced labor" in the "Trafficking in Persons Report," U.S. State Department, Washington, D.C., 2005. A 2010 report highlighted Mongolia's government's commitment to enforce anti-trafficking laws and civil society organizations (e.g., Gender Equality Center) to assist victims, but pointed out that "corruption remains a key barrier to anti-trafficking progress" in Mongolia. See "Trafficking in Persons Report," U.S. State Department, Washington, D.C., 2010.

37 See *2010 Statistics* (Ulaanbaatar: Capital City Statistics Office, 2010); Takuya Kamata, ed., *Managing Urban Expansion in Mongolia* (Washington, D.C.: World Bank, 2010).

38 See Robert Grayson, "Anatomy of the People's Gold Rush in Modern Mongolia," *World Placer Journal* 7, no. 1 (2007): 1-66.

39 Ibid.

40 William Murray, "Informal gold mining and national development: The case of Mongolia," *International Development Planning Review* 25, no. 2 (2003): 111-128.

Table 2. Common Lifestyles in Mongolia

	Rural	Semi-Urban		Urban
		Semi-Rural	Semi-Urban	
	Countryside	Outskirts of the Capital Province Centers Artisanal Mines	Capital City Province Centers	Capital City Province Centers
Lifestyle	Nomadic	Semi-agrarian	Sedentary	Sedentary
Dwelling	Ger	Ger/Houses/Fences	Ger/houses/fences	Apartments Housing complexes
Economy	Cattle herding	Crop plantation Small cattle herding Artisanal mining	Urban employment	Urban employment
Dwelling	Ger	Ger/fenced	Ger/fence	Apartments
Human Security Challenges	Access to public service, markets, and infrastructure Risk of natural disasters	Safety Drinking water Heating (winter)	Air pollution Safety Drinking water Heating (winter)	Air pollution Safety Heating (winter)

Source: Author's own table

Nation-Specific Geographic and Ecological Features

Geography and ecology also matter in human security. Each nation has a set of specific geographic and ecological features, which endow both advantages and disadvantages. Mongolia is comparable to other landlocked developing states, especially those beginning to exploit their mineral resources. Literature on landlocked nations presents a number of different arguments on the relative advantages and disadvantages of being landlocked. First, “independence for landlocked states has generally been granted in exchange for acceptance of territories with inadequate climates and economic difficulties.”⁴¹ Raballand points out “most of these states are quasi-deserts, deserts or mountainous areas and generally small countries.”⁴² The geo-strategic and economic importance of landlocked nations has re-surfaced as major powers are becoming interested in securing inland trade routes and energy resources as well as establishing military transit points.

Economists contend that landlocked states are disadvantaged in terms of economic development because of their distance from global and regional markets, their underdeveloped infrastructure, and the transit challenges they face.⁴³ More than half of them depend on fuel imports

although they possess other types of mineral resources. Moreover, Faye et al. state that “the average Gross Domestic Product per capita of landlocked countries is approximately 57 percent of their maritime neighbors ... life expectancy index scores are 0.3 percent lower on average, equivalent to 3.5 years.”⁴⁴ Docquier et al. claim, moreover, that the least developed landlocked countries experience more brain drains in today's world than other countries.⁴⁵

Landlocked nations may have specific economic advantages or disadvantages. Mongolia is for instance a “single” landlocked country, which does not share a border with any other landlocked clusters. It is sandwiched between two populous, armed, nuclear, major powers and economic powerhouses. It has a large, sparsely populated territory, which creates challenges for the government in its provision of public services, and favors labor shortages for major economic projects. Also, Mongolia does not have inland waterways (i.e. lakes, rivers) which could facilitate domestic trade, transportation, and irrigation. The country is prone to numerous ecological challenges—disasters, environmental degradation, and air pollution—associated with its geography and economic transition.

41 See Gaël Raballand, “Determinants of the Negative Impact of Being Landlocked on Trade: An Empirical Investigation Through the Central Asian Case,” *Comparative Economic Studies* 45 (2003): 520–536.

42 Ibid.

43 See Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can be Done About It* (Oxford: Oxford University Press, 2007); Ricardo Hausmann, “Prisoners of Geography,” *Foreign Policy* 122 (2001): 44–53; Nuno Limão and Anthony J. Venables, “Infrastructure, Geographical Disadvantage, Transport Costs, and Trade,” *World Bank Economic Review* 15, no. 3 (2001): 451–479; Jean Francois Arvis, *In Customs Modernization Handbook* (Washington, D.C.: World Bank, 2005), 243–264.

44 See Michael Faye et al., “The Challenges Facing Landlocked Developing Countries,” *Journal of Human Development and Capabilities* 5, no. 1 (2004): 31–68.

45 See Frederic Docquier et al., “Brain Drain in Developing Countries,” *The World Bank Economic Review* 21, no. 2 (2007): 193–218.

Table 3. Human Security Concerns: Landlocked vs. Coastal Countries

	Landlocked	Coastal
Security	<ul style="list-style-type: none"> • External threat of neighbors (land) • Not prone to sea-borne NTS threat 	<ul style="list-style-type: none"> • External threat of neighbors (sea/land) • Prone to sea-borne NTS threats
Economy	<ul style="list-style-type: none"> • Dependent on politics, economy, stability of neighbors • No access to marine resources • Half are fuel dependent 	<ul style="list-style-type: none"> • Diversified trade opportunities • Accessible to global market/resources • Access to marine resources
Ecology	<ul style="list-style-type: none"> • Arid, either extreme cold or hot weather • Not prone to sea-borne disasters 	<ul style="list-style-type: none"> • Mild weather • Prone to sea-borne disasters

Source: Author's own table

Paul Collier and Faye et al. also highlight geopolitical factors: neighbors' peace and stability, cross-border political relations, and their neighbors' infrastructure and administrative practices are key for landlocked nations and their human security challenges. In the last century, for example, Mongolia suffered from violence spilling over from internal conflicts in China and Russia, resulting in an intervention by Chinese and Russian military forces. Like other landlocked states, Mongolia is therefore prone to direct military threats by neighboring major powers, the spillover of violence, and risks becoming a buffer zone or battlefield in conflicts between neighbors.

Cross-border political relations between Mongolia and China suffered during the Sino-Soviet conflict. Between 1963 and 1989, Mongolia cut off its trade and other exchanges with China and increased its dependency on the Soviet Union. During this period, the Sino-Mongolian border was heavily militarized and ethnic minorities in both nations were systematically marginalized and repressed. Following Sino-Soviet rapprochement, Mongolia was granted access to the Tianjin seaport, which is 1,700 kilometers from Ulaanbaatar; this contrasts with Russian ports located at a distance of 4,000 kilometers away. Despite generally positive cross-border political relations with China and Russia, Mongolia remains vulnerable to the foreign policies of both neighbors. For example, Beijing stopped rail traffic to Mongolia in protest of Ulaanbaatar's hosting of the Dalai Lama in 2002, and Moscow often uses its fuel imports and influence over the railway grid to assert its interests in the country; and both Moscow and Beijing decided in 2001 to bypass Mongolia in their natural gas pipeline.⁴⁶

Mongolia depends ultimately on its neighbors' infrastructure and administrative practices in all matters

of trade. Geographically, its closest regional market is East Asia, not Europe. Mongolia's infrastructural links to Central Asia are also underdeveloped, and only possible through China or Russia. When demarcating the Kazakhstan border, Moscow avoided a direct border between Kazakhstan and Mongolia by inserting a 40-km strip of Russian territory between them. Although Mongolia enjoys access to the Chinese market, Chinese administrative practices related to transit, customs, and transport often impact negatively Mongolian trade and its domestic market.

Mongolia is also facing important climate- and environment-related challenges. The most significant natural disasters are earthquakes, flash floods, and *zud*, the latter having proved the most detrimental to livelihoods. The term refers to a condition of extreme cold which threatens the survival of humans and livestock. Siurua and Swift have noted four types of *zud*: abundant snowfall (white *zud*), the formation of an impenetrable ice layer over pastures (ice *zud*), lack of sufficient winter fodder following a summer drought (black *zud*), and soil compaction by grazing animals (trampling *zud*).⁴⁷ Some scholars argue that *zud* occurs with an average frequency of once every eight years, while Mongolian scholars have recorded *zud* in the winters of 1944-1945, 1967-1968, 1978-1979, 1999-2002, and 2009-2010.⁴⁸ As a result of the three-year *zud* in 1999-2002, almost one-third of Mongolian cattle (12 million) were killed, 12,000 families lost their animals, thousands were forced into poverty, and agricultural contribution to the GDP decreased from 38 percent to 20 percent.⁴⁹ On average, 3-8 million cattle are lost in a single winter *zud*. It is also important to note that the herding economy has not been able to create or adapt to a new system which could assist herders to prepare for

46 On the Dalai Lama, see the PRC Foreign Ministry Spokesman's Press Conference on November 7, 2002, <http://www.china-embassy.ch/eng/xwss/t138474.htm>, and on the pipeline by-pass, see Doh Hyun-jae, "Energy Cooperation in Northeast Asia: Prospects and Challenges," *East Asian Review* 15, no. 3 (2003): 85-110.

47 Hanna Siurua and Jeremy Swift, "Drought and *zud* but no famine (yet) in the Mongolian herding economy," *IDS Bulletin* 33, no. 4 (2002): 82.

48 See Punsalma Batima et al., "Adapting to drought, *zud* and climate change in Mongolia's rangelands," in *Climate Change and Adaptation*, ed. Neil Leary (London, UK: Earthscan, 2008), 196-210; Swift Templer and P. Payne, "The Changing Significance of Risk in the Mongolian Pastoral Economy," *Nomadic People* 33 (1993): 105-121.

49 See Batima, "Adapting to drought, *zud* and climate change in Mongolia's rangelands," 199.

harsh winters. Between 1960 and 1989, when agricultural production was collectivized, veterinary care, fodder preparation, and supplementary labor were provided by the government, at no cost to herders, through localized agricultural centers called *negdel* and *sangiin aj ahui*. Workers, students, and conscripts were mobilized as a seasonal workforce to prepare fodder and to assist herders. Whereas the above disappeared after 1990, the occurrence of *zud* and its related hardships have not.

Like many other developing countries that rely on mining sectors, environmental degradation is also becoming an acute problem, with transnational impacts. According to government sources, 14,734 mining and exploration licenses—covering about 46 percent of the national territory—were given to foreign and domestic mining companies between 1997 and 2010.⁵⁰ In addition, informal mining has operated outside state control since the mid-1990s. At the same time, ineffective regulatory frameworks and enforcement mechanisms have further compounded the problem. World Bank studies have indicated a number of serious environmental impacts, including changes in hydrological regimes, deterioration of water quality, pollution from waste-rock piles and tailing repositories, mercury pollution, air pollution, and the degradation of protected areas.⁵¹ Mining poses therefore a threat to human health and safety, especially for those involved in informal mining, and harms the environment by polluting soil, water sources, forestry, and the ecosystem as a whole.

Besides these internal challenges, increased mining activities in Mongolia are having cross-border effects such as in the form of dust storms. The “Asian dust storm” has become a well-known natural phenomenon for residents in Beijing, Seoul, and Taipei since 2000. The storm, originating in the arid Gobi desert of Inner Mongolia, carries a huge volume of dust to major population centers in the spring for a couple of days, causing air traffic delays and respiratory disease in major Northeast Asian cities.⁵² According to a recent Taiwanese study, “the strongest estimated effects of dust storms were an increased 7.66 percent in risk for respiratory disease one day after the event, 4.92 percent for total deaths two days following the dust storms and 2.59 percent for circulatory diseases two days following the dust storms.”⁵³ Deforestation, desertification, and soil degradation due to mining and other human activities in Mongolia and northeastern

China are clearly potential causes of this sub-regional phenomenon.

Environmental challenges also affect urban populations. The demographic shift from rural to urban centers in post-Communist societies were quite similar due to a shared legacy of past urban and rural planning and the same economic challenges faced during transition. Overcrowded cities and suburbs have reduced the availability of public services and aggregate social and ecological problems (e.g. poverty, unemployment, safety, pollution). In the case of Mongolia, the overcrowded capital city experiences the most serious air pollution during winter. The main method of survival for semi-urban (suburban) dwellers is coal burning; approximately 70 percent of suburban households are not connected to central heating grids powered by power plants. Studies have indicated that Ulaanbaatar is becoming one of the most polluted cities in Asia because of smoke and dust, while experts have identified the link between air pollution and increased health risks for residents.⁵⁴

Mongolia’s unique geographic location presents numerous challenges for its population. Like other landlocked nations, the country is dependent on its neighbors’ security, economy, and infrastructure. Presently, Mongolian economic development and sustainability depends on the Chinese market and, more importantly, on the fuel supply from Russia. Until Mongolia diversifies its trade and energy sources, sustainable development will remain vulnerable and therefore directly impact human security. Whereas Mongolians experience several different types of natural disasters, it is the *zud* that has devastated the national economy since 1999. An effective system to cope with this has yet to be found. Comparable to other developing nations, Mongolia has also been experiencing environmental degradation due to extensive mining exploration and unplanned demographic shifts.

Ineffectiveness of the State in Responding to Human Security Challenges

The state is responsible for providing security, social justice, maintaining sustainable economic development, and protecting the environment. Historically, all states have prioritized their national security over the security of their people; now, however, most nations are required to make compromises between the state and human security levels. The dignity of all human beings is theoretically

50 Report of the Ministry of Mineral Resources and Energy.

51 See *Mongolia: A Review of Environmental and Social Impacts in the Mining Sector* (Washington, D.C.: World Bank, 2006).

52 See R. B. Husar et al., “Asian dust events of April 1998,” *Journal of Geophysical Research* 106, no. 16 (2001): 317–330.

53 Yong-Shing Chen et al., “Effects of Asian dust storm events on daily mortality in Taipei, Taiwan,” *Environmental Research* 95, no. 2 (2004): 151–155.

54 See Joanna Gordon, “Perceptions of the health effects of stoves in Mongolia,” *Journal of Health Organization and Management* (2003): 580–587; Bolor-Erdene et al., “Study on ambient air quality in some cities of Mongolia,” *Strategic Technologies* (2008): 637–638; Baigalmaa Dashdendeu et al., “Carbon monoxide pollution and lung function in urban compared with rural Mongolian children,” *Respirology* 16 (2011): 653–658; and “NSC convened to discuss air pollution,” Office of the President, January 14, 2011, <http://www.president.mn/mongolian/node/1426>.

recognized and the state is in charge of providing social justice for its population without prejudice. All nations are also struggling to maintain a proper balance between economic development and environmental protection.

The state is supposed to execute effective and efficient policies to provide security to its own population. However, it is difficult to measure effectiveness in terms of “the ability to actually achieve stated goals.”⁵⁵ The analytical framework developed by Bruneau and Matei contends that there are three minimum requirements for the state institution to fulfill its goals effectively. “First, there must be a plan in place, which may take the form of a strategy or even a doctrine Second, there must be structures and processes both to formulate the plans and implement them ... Third, a country must commit resources, in the form of political capital, money, and personnel.”⁵⁶ Both authors argue that “lacking any one of these three components, it is difficult to imagine how any state would act effectively.”⁵⁷ Although their framework was developed for measuring the effectiveness of the state in achieving its defense goals, it is also useful in examining the effectiveness of the state in its response to its human security challenges. Most developing countries have adopted plans, institutionalized processes and structures, and allocated resources to overcome human security concerns.

Plans

Starting with the 1992 Constitution, the Mongolian state proclaimed in its preamble that it would develop “a human, civil, democratic society.” It formulated its first National Security Concept in 1994, stressing domestic human security interests. After several reviews by governmental agencies, the second national security statement was approved by Parliament on July 15, 2010. The revised Concept emphasizes collaborations between the state and its citizens to maintain national security, and it defines human security as one of its six priorities (external, economic, domestic, human, environmental, and information security).⁵⁸ It also includes more specific goals in regard to four human security issues: public health, food security, security of the living environment, and protection against transnational crimes.⁵⁹ Upholding the principles and goals stated in the Constitution and the National Security Concept, the Mongolian state

issued various programs and plans. *The Good Governance for Human Security Policy Program (2001-2004)* and *the Millennium Development Goals-based National Development Strategy to 2021* became important plans for state organs to improve human security conditions.

On the one hand, these documents demonstrated the state’s explicit endorsement of international initiatives on human security and serve as guidance for action plans to tackle poverty, unemployment, social justice, sustainable economic development, and environmental protection. On the other hand, these were merely perceived as political statements by politicians to win elections. Key political parties have also developed their own strategy documents (e.g. *Mongolian Person – 2020* of the Democratic Party, *Mongolian Person – 2030* of the Mongolian People’s Party) to gain public support during the parliamentary and presidential elections of 2012 and 2013, respectively.

Processes and Structures

The current Mongolian state has institutional structures and legal processes to formulate plans and implement them. Although post-Communist organs appear to be more transparent than their predecessors, actual public participation is limited to electing officials in the government and to government-affiliated think tanks and scholars. Even though the public is free to criticize the government’s actions and plans, it does not have meaningful participation and insights in the processes of formulation and implementation. Moreover, because the concept of human security is so broad, all ministries and agencies are responsible for a part of its implementation, without real coordination. The Ministry of Social Welfare and Labor is, for instance, in charge of implementing the government’s poverty alleviation plan while the Ministry of Internal Affairs and Justice is the lead agency for public safety.

This leads to a few general observations of the processes and structures of developing countries in providing human security. First, all ministries and agencies have undergone a transitional period of adjusting their institutions for carrying out new tasks. This is true for both old and newly established bureaucracies. However, the newer bureaucracies face fewer difficulties in disconnecting from their old corporate mentality, culture, and procedures. Second, all branches of the government

55 Thomas Bruneau and Cristiana Matei, “Towards a New Conceptualization of Democratization and Civil-Military Relations,” *Democratization* 15, no. 5 (2008): 918–921.

56 *Ibid.*, 918.

57 *Ibid.*, 918.

58 Author’s interview with officials from the Office of the President, staffers of the National Security Council, and researchers of the Institute for Strategic Studies, June 21–26, 2010. The revision of the 1994 National Security Concept was discussed in a “closed circle” of academics and practitioners (61 people) and was passed by Parliament on July 15, 2010. Source: “Renewed National Security Concept of Mongolia Passed,” *UB Post Newspaper*, July 20, 2010.

59 See *National Security Concept*, 2010.

were devastated by transitional problems such as budget cuts and shortages of human and material resources. Third, frequent changes of government, along with their political appointees, impose new challenges. The continuance of any new plans and programs is interrupted according to the new ruling party's campaign platform. The reshuffling of heads, experts, and professionals at bureaucracies impacts the effectiveness of government's responses to human security challenges, and most political appointees give priority to short-term programs. At the same time, the Soviet legacy and old institutional practices weaken efforts at reform.

Resources

Countries commit resources to implement their stated goals toward human security. During the Communist period, Mongolia relied heavily on Soviet subsidies to improve the livelihood of its population while international donors assisted it in recovering from the sudden economic collapse in the 1990s. As market demand for Mongolia's copper, coal, and gold has gradually increased from the early 2000s, the state has been able to accumulate revenues and attract foreign investments. However, much of this capital has been spent on social welfare distributions to the population in the form of cash transfers. Political parties rallied for more innovative monetary distributions such as financial rewards for newlyweds and newborns, allowances for children, and increases in salaries and pensions after the 2004 and 2008 parliamentary elections. This served to increase inflation during the financial crisis of 2009. In November 2009, to solve the inefficient policy of cash transfers, the Mongolian parliament approved the establishment of the Human Development Fund, funds for which will be generated out of the royalties accrued from the mining industry, in order to implement a comprehensive social welfare reform to pay pensions, health insurance, housing, education, and also cash transfers to citizens. Although it is too early to examine the impacts of this new policy, it signals the state's efforts to reduce ineffective cash-transfer policies following the uncoordinated election promises of political parties and to alleviate socio-economic conditions.

There are some areas where the government is making progress. However, these positive examples are few in comparison to the larger number of inefficient cases. More positively, for example, the government's third agrarian

Campaign (2008-2010) has yielded significant success in re-establishing the self-sustained production of wheat, potatoes, and vegetables. In 2010, Mongolia became fully self-sufficient in the production of wheat and potatoes, and 60 percent self-sufficient in its vegetable needs.⁶⁰ But although there are a number of policies to alleviate human security challenges still being implemented, inefficiencies in governance will continue to negatively affect the state's ability to enact them.

Another ineffective usage of resources directly relates to the persistence of corruption. Mongolia passed its first anti-corruption law in 1996 and its second in 2007. A national program to fight corruption was enacted by Parliament, and the Anti-Corruption Agency was established in 2006. Moreover, Mongolia ratified the United Nation's Anti-Corruption Convention. Like the government's agenda on the eradication of poverty and unemployment, the fight against corruption has always been at the top of the government agenda and political campaign statements, but the public outrage against widespread corruption has only increased. Although efforts have been made to institutionalize anti-corruption efforts, political parties along with business interest groups are striving to consolidate their power within key national financial institutions, judicial and law enforcement institutions, including the Anti-Corruption Agency. The apparent reason is to influence the activities of these institutions for their own political and economic interests, which is obviously not a healthy sign of democratic consolidation. Mongolia's corruption index regressed from 43 in 1999 to 120 in 2009, although there was slight progress noted in 2011.⁶¹ Foreign aid, privatization, and natural resource extraction are identified as important drivers of corruption.⁶² If this trend continues, Mongolia's corruption will persist and negatively impact political and social stability.

As with many other developing countries, Mongolia has promising *plans*, which identify key human security concerns and ways in which to respond. It also has *structures* and *processes* to formulate and implement these plans, including allocating specific state revenues or requesting resources from donor nations and international organizations. However, inefficiency and corruption appear to be the main factors hindering the government's ability to keep its human security promises and run processes and structures effectively

60 The "Agrarian campaign" was organized in 1959 and 1976. By the end of the 1970s, Mongolia was able to provide for its domestic needs and to export wheat. But this self-sufficiency was reduced to a production of 24.9 percent of wheat, 86 percent of potatoes, and 47 percent of vegetable needs, because of cheap food imports from China and increased international food aid in the early 1990s. See Enkhbayar Tumurtogoo, "Food Demand and Supply of Mongolia," 2011, http://www.nodai.ac.jp/cip/iss/english/9th_iss/fullpaper/1-2-4msua-enkhbayar.pdf. It assuaged public concerns over low quality food imports from China and reduced dependency on wheat from Russia and China, according to the Government's Report on Policy Implementation on Food Security, <http://www.open-government.mn>.

61 See Annual Reports of Transparency International, <http://www.transparency.org>.

62 See Verena Fritz, "Mongolia: The Rise and Travails of a Deviant Democracy," *Democratization* 15 (2008): 766-788.

with its own limited resources and external assistance. The only way to overcome corruption and inefficiency is to increase transparency in government activities and spending as well as improve the accountability of political and bureaucratic institutions. The legal framework for increased transparency and accountability has already been established in Mongolia, but the enforcement of legislation, regulations, and standards is still lacking. The political will of politicians and bureaucrats may well prove one of the keys to achieving any success.

Concluding Remarks

The case of Mongolia demonstrates the complexity of human security challenges that face the developing world. All of the UNDP's dimensions of human security are at issue in these countries even if they are not consumed by intra and interstate-armed conflicts. After two decades of third-wave democratization and the end of the Cold War, local governments still lack the capacity to provide security, social justice, and sustainability for their populations. People remain vulnerable to non-systematic violence and non-violent threats such as poverty, disease, and disasters.

Finally a New Era in NATO-Mongolia Relations

Mendee Jargalsaikhan¹ (2012)

Mongolia would implement its first Individual Partnership and Cooperation Program (IPCP).² This will be the first IPCP to be carried out under the new partnerships policy, adopted by NATO foreign ministers in Berlin during their April 2011 meeting. This is a substantial change in NATO's behavior towards Mongolia. Ulaanbaatar has sought to engage the North Atlantic Alliance since the beginning of the 1990s, but until now has been left out from the Partnership for Peace (PfP) program, which was proposed to all former Soviet republics. Yet Mongolia is the only post-communist Asian state whose democratization has not regressed since its peaceful transition to free-market economy.³ This paper explores the history of NATO's changing attitudes to Mongolia and the policy implications of the NATO announcement.

NATO's Reluctance and Mongolia's Sustained Commitment

NATO's earlier reluctance for partnering with Mongolia is threefold. First, Mongolia sits in a complex geopolitical location. Considered the historic backyard of both Russia and China, NATO wanted to avoid creating new areas of tension with both Moscow and Beijing. Second, Mongolia's inclusion in the PfP would cause a financial burden, because it required sponsorships to participate in range of partnership activities. And third, Mongolia remained a *terra incognita* in the Western perception of Eurasia and North Asia. None of the NATO members had good knowledge about the country, its political and security situation, its defense capability, nor the relationship between Mongolian politicians and the military.

Although Mongolia's 1992 Constitution and the 1994 National Security and Foreign Policy Concepts declared the country's neutrality and non-alignment stances, Ulaanbaatar has attempted to establish ties with

the Western countries under its "third neighbor" strategy. This strategy calls for building closer ties with developed democracies to counterbalance Russia and China's influence, while also increasing Mongolia's international profile.⁴ For this purpose, defense diplomacy became an integral part of Mongolia's new foreign policy. First, the Defense Ministry disconnected itself from the country's Soviet past and consolidated a new identity for the military in a democratic society. Second, the military needed to find missions to justify its existence in the absence of major external threats. Third, there were opportunities (training, interactions) extended by the Western militaries at a time when Yeltsin's Russia was unwilling to continue its assistance to Mongolia and Mongolians were reluctant to engage with the Chinese due to historical tensions between both countries.

Table. Some Data on Mongolia

Total Population	2.7 million
Military (Army, Air Force)	10,000 ⁵
Paramilitary (Border Troops)	7,200 ⁶
Defense Budget	69,500,000 USD (1% of GDP) ⁷
Personnel Participated in Peacekeeping Operations	5,221 ⁸

Source: *The Military Balance 2012*, International Institute for Strategic Studies (London: Routledge, 2012), 267; *The SIPRI Military Expenditure Database*; "5221 Personnel Participated in the Peacekeeping Operations," *News.MN*, October 21, 2011

Since 1996, Mongolia has expressed its desire to be included in the PfP initiatives by arguing its similarities with other post-communist countries and former Soviet republics. The government's action plan for 1996-2000 reflected this desire and appointed Mongolia's first permanent Defense Attaché to NATO in 1998.⁹ That same year, a delegation headed by the Secretary of National Security Council explored opportunities of including Mongolia in the PfP program at the NATO Headquarters. The Mongolian side has also expressed this desire to

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 - 2 "NATO and Mongolia Agree Programme of Cooperation," *NATO News*, 19 March 2012, http://www.nato.int/cps/en/natolive/news_85430.htm.
 - 3 Steven Fish, "The Inner Asian Anomaly," *Communist and Post-Communist Studies* 34 (2001): 323-338; and Verena Fritz, "Mongolia: Rise and Travails of a Deviant Democracy," *Democratization* 15 (2008): 766-788.
 - 4 Tsedendamba Batbayar, "Geopolitics and Mongolia's Search for Post-Soviet Identity," *Eurasian Geography and Economics* 43, no. 4 (2002): 323-335.
 - 5 *The Military Balance 2012* (London: Routledge, 2012), 267.
 - 6 *Ibid.*
 - 7 The SIPRI Military Expenditure Database, <http://milexdata.sipri.org/>.
 - 8 "5221 Personnel Participated in the Peacekeeping Operations," *News.MN*, October 21, 2011, <http://politics.news.mn/content/84060.shtml>.
 - 9 Notes on Bilateral Relations, Embassy of Mongolia in Belgium, <http://mon.embassyofmongolia.be/node/17>.
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the military delegations and defense attachés from the United States, Germany, Canada, France, and Italy, who had recently established military-to-military ties with Mongolia.

The engagement with NATO members in peacekeeping, military training, disaster relief, and science and technology remained a permanent goal in all consecutive government action plans since 1996. Even the 2011 revised National Security Concept and Foreign Policy Concept stressed broadening cooperation with NATO members, while not mentioning anything about the Shanghai Cooperation Organization.¹⁰ In March 2009, Mongolia started contributing troops to NATO's mission in Afghanistan. However, even then the country was not officially included in NATO forums and dialogues until 2010.

In the 2000s Mongolia began increasing its interaction with NATO countries. Ulaanbaatar started by expanding its military-to-military interactions with other NATO members including Belgium, the United Kingdom, the Netherlands, Luxemburg, Turkey, Poland, and Bulgaria. It also institutionalized its relations with Germany, Belgium, Luxemburg, and Turkey. Then Mongolia became a partner in peace support operations in Iraq, Afghanistan, and Kosovo. It deployed over 1,000 troops to Iraq under the Polish-led multinational division between 2003 and 2007, artillery and helicopter mobile training teams and infantry companies to Afghanistan, and infantry platoons to Kosovo. While the main contributing nations were reducing their commitments to Afghanistan, Mongolia was increasing its participation from a mobile training team up to 400 troops and remains a steadfast partner with 1,000 troops deployed for the United Nations peacekeeping operations.¹¹

Mongolia's commitment to NATO operations seems to have caused concern in Russia, but not in China. From the start of Mongolia's deployment to Iraq, Moscow attempted to dissuade the Mongolian political and military leaders in supporting the US-led operations in Iraq. The Kremlin offered extensive military assistance (in both material and training) to Ulaanbaatar, intensified their high-level military interactions (reciprocal senior leadership visits), and began annual bilateral military training exercises.¹²

Dissatisfaction of Mongolia's engagements with NATO has also been expressed through more assertive

methods. Moscow delayed air clearance for NATO aircrafts carrying Mongolian military ammunition to Iraq, as well as a Turkish military flight participating in peacekeeping training events in Mongolia. In 2008, Mongolia's last minute cancellation of its participation in the France-supported Lebanon mission occurred after high-level meetings between Mongolian and Russian officials in Moscow.¹³ China has never overtly reacted to Mongolia's engagement with NATO and participation in the coalition missions in Iraq, Afghanistan, and Kosovo, as its major concern seems to be Mongolia's bilateral engagement with the United States and India.

Growing Interactions with NATO Allied Nations

In addition to Ulaanbaatar's credible commitments to reaching out to NATO, increased interactions between the Mongolian military and key NATO members have played an important role in the evolution of the Alliance's relationship with Mongolia.

Belgium established bilateral relations with Ulaanbaatar in 1998. Concluding a defense cooperation agreement in 2004, they began high-level defense exchanges (between Defense Ministers and Chiefs of the General Staffs) in 2002. Belgium sponsored Mongolia's deployment to Kosovo, and now exercises operational command over Mongol troops at Kabul International Airport in Afghanistan. The Mongolian military deployed over 80 personnel with the Belgium contingent in Kosovo in 2005-7 as well as an infantry platoon to Afghanistan in 2012.¹⁴ Following Belgium, Luxemburg militaries engaged with their Mongolian counterparts. Since then, over 30 Mongolian officers and non-commissioned officers were trained in Luxemburg.¹⁵ Both countries have lobbied for Mongolia's inclusion into the Partnership across the Globe.

After the United States, Germany was the second NATO country to begin military cooperation with Mongolia in 1993. Mongolian-German military cooperation was gradually institutionalized – bilateral treaties were concluded, training assistance programs were extended to Mongolians in the mid-1990s, and high-level staff talks began in 2004. Since 2008, a Mongolian military platoon (42 personnel) has been deployed to the German base at Fayzabad in Afghanistan.¹⁶ This small deployment became an important part of high-level discussions between political and military leaders

10 The National Security Concept and Foreign Policy Concept were revised by the Parliament in 2010 and 2011 respectively.

11 Official Data of the relevant departments of the Ministry of Defense and the General Staff of the Armed Forces of Mongolia.

12 Interviews in Ulaanbaatar, June 2010, also Press Releases of the Ministry of Defense of Mongolia.

13 Interviews in Ulaanbaatar, June 2010.

14 Data of the Peacekeeping Department of the General Staff of the Armed Forces.

15 More on the website of the Embassy of Mongolia in Belgium, www.embassyofmongolia.be.

16 "Federal Minister Westerwelle met with Mongolian Foreign Minister Zandanshatar," German Federal Foreign Office, May 19, 2010, <http://www.auswaertiges-amt.de/diplo/en/Infoservice/Presse/Meldungen/2010/100519-BM-MongolAM.html>.

in advancing Mongolia's interests in developing broader engagements with the European Union. In addition, Germany agreed to sponsor Mongolian participants in the George C. Marshall European Center for Security Studies, in which approximately 200 officials from Ulaanbaatar (parliamentarians, military and security forces personnel, and diplomats) have attended various courses, dialogue, and seminars.¹⁷

In 2003, Turkey became another of Mongolia's NATO country partners. Ankara concluded military-technical agreements, and commenced biannual staff talks. Turkey offers annual training opportunities for Mongolian military officers, conducts bilateral tactical training exercises in Mongolia, and sponsors the latter's participation in PFP events in Turkey.¹⁸ In a very short span of time, both sides even explored opportunities to deploy Mongolian military with the Turkish contingent in Afghanistan, but discussion was abated due to technical issues.

The United Kingdom and France have also become gradually interested in Mongolia. Mongolia's participation in UK-led military operations in Iraq served as impetus for Ulaanbaatar to approach its partners in London. UK offered short-term peacekeeping training opportunities for Mongolian military personnel and provided materials and teachers to its peacekeeping English development program.¹⁹ The UK also organized the first-ever small-scale peacekeeping exercise, which was attended by two squads from the UK, France, China, and US in July 2004 at the Mongolian peacekeeping training center. Russia initially agreed, but then recalled its participants from the Russian-Mongolian border.²⁰ It was the first tactical encounter of the Western militaries with Chinese special police forces.

France was the second NATO member to post a permanent defense attaché in Ulaanbaatar over several years, until his duties were transferred to the French defense attaché in Beijing for budgetary reasons. Paris also provided material assistance for Mongolian peacekeeping forces, offered French language training support, and included Mongolia in its military education and training program.²¹ The big endeavor of deploying Mongolian contingent with the French forces in Lebanon was cancelled, however, in 2008.

The other set of Mongolia's friends at the NATO Headquarters were Central European countries. Poland

became the closest one as Mongolia decided to deploy its military contingent under the Polish-led multinational division in Iraq. This deployment has continued for over five years. It has strengthened political ties between Mongolia and Poland as Presidential as well as Defense Ministers' visits resulted in firm support from Warsaw for Ulaanbaatar's desired engagement with NATO. Mongolia has also garnered support from Bulgaria, Hungary, and the Czech Republic.

Canada-Mongolian military interactions also developed rapidly. Obviously, the US military engagements with Mongolia affected Canada's establishment of ties with Ulaanbaatar, but it was superficial until 2004. Mongolia's military leaders' interactions with Canadian counterparts at the annual Chiefs of Defense Conference and the Shangri-La Dialogue (2002) have certainly paved the way for concluding a bilateral agreement, which allowed Mongolian military to attend the Canadian Military Training Assistance Program (2004), further increased exchanges of peacekeeping experts and deployment of Canadian military observers, and allowed Canada to participate in the Khan Quest exercise.²² Furthermore, over 70 Mongolian military personnel have now attended training in Canada.

The US position has been complex. In 1998, Senator McCain called for Mongolia's earliest admission to the PFP program; but both the State Department and Defense Department were reluctant to follow up.²³ Their dilemma was twofold. First, the US did not want to create another flashpoint with Russia concerning NATO enlargement, while China's potential negative reaction was also on their radar. Second, Mongolia belongs to the area of responsibility of the US Pacific Command, which moved it apart from the PFP geographical focus. Washington was therefore more interested in supporting Ulaanbaatar's desire to be integrated with Northeast Asia, thanks to geographic proximity to Beijing, Seoul and Tokyo, rather than to associate it with Central Asia.

Interagency dealings to integrate Mongolia into activities hosted by either the European Command or the Central Command proved to be difficult. For example, Mongolia's inclusion in the US-led initiatives to form a Central Asian peacekeeping battalion in the late 1990s created bureaucratic problems, even after Kazakhstan lobbied for Mongolian participation in the CentrAzBat.

17 Mongolian Alumni Directory, George Marshall Center, and interviews from leaders of the Mongolian Alumni Associations in January 2011.

18 Interviews in Ulaanbaatar in June, 2010.

19 Peter Hare and Jargalsaikhan Mendee, "PEP Assists in Expanding Mongolia's Peacekeeping Efforts," Peacekeeping English Project, August 2008, <http://www.britishcouncil.org/pep31.pdf>.

20 Interview in Ulaanbaatar, June 2009.

21 Interview in Ulaanbaatar, June 2009.

22 "Canada goes to Khan Quest," *The Maple Leaf* 9, no. 9, May 17, 2006; "The most 'Canadian' of Mongolians served in peacekeeping operations," *The Maple Leaf* 10, no. 12, May 2, 2007; "The ties that bind," *The Maple Leaf* 11, no. 17, May 7, 2008.

23 Concurrent Resolution of the Congress (60), March 3, 1998, <http://www.gpo.gov/fdsys/pkg/BILLS-105sconres60rs/pdf/BILLS-105sconres60rs.pdf>.

Overcoming these challenges, Mongolia was able to attend the training exercise in 2000.²⁴ This was the first time Mongolian military interacted with the UK, United States, Turkey, and the Central Asian states at the same time. The other example was Mongolia's participation in the George Marshall Center's activities. The United States could not sponsor Mongolia's participation, which was only enabled through Germany's financial support.²⁵ Even though the US is not overtly opposed to Mongolia's participation in NATO activities, Washington still wrestles with geopolitical and administrative dilemmas related to Mongolia's complex position in Eurasia and North Asia.

Following Mongolia's recognition as a troop-contributing nation to the NATO mission in Afghanistan in 2010, the Mongolian President, Defense and Foreign Ministers, and Chief of the General Staff now actively participate in high-level gatherings at NATO which enables further interactions with political and military leaders of Allied Nations. Official discussions between the NATO Headquarters and Mongolian Defense Ministry have become institutionalized, opening up new areas of consultation, cooperation, and learning. Mongolia's military deployments with Germany, Belgium, Luxemburg, and Poland have also contributed in gaining the latter's support of Mongolia in multilateral institutions. In 2004 for instance, Mongolia became an Asian partner of the OSCE and is now closer to becoming a full member of the Organization.

Policy Implications

NATO's changing attitude to Mongolia has a number of policy implications for both Mongolia and the North Atlantic Alliance. The Individual Partnership and Cooperation Program is a noticeable acknowledgement from Western democracies of Mongolia's sustained commitment toward democratization and international peace and security, moreover the country neither borders a full democracy nor one that is a member in Western-lead regional institutions. Mongolia's inclusion in NATO initiatives will thus strengthen Ulaanbaatar's attempts to disconnect from its Soviet past, and offers an opportunity for the local military and security forces to expedite their transformation toward NATO-standard professionalism, and civilian control.

Mongolia's experience may also offer lessons for other Central Asian states, especially in its success in creating a democratic civil-military relationship, civilian control, military professionalism, and its determined commitment toward peacekeeping operations. None of the Central Asian states have demonstrated real commitment in any of these areas and all are still hesitant in implementing defense sector reforms. NATO's growing engagement with Mongolia can therefore be used as a model in the post-Soviet space, proving that living in Russia and China's neighborhood does not justify a governments' refusal to engage in creating a more transparent defense sector.

24 Elizabeth Sherwood-Randall, "Building Cooperative Security Ties in Central Asia," *Stanford Journal of International Relations* 3, no. 2 (2002).

25 Interviews in Ulaanbaatar, June 2010.

Factoring Mongolia's Non-Membership in the Shanghai Cooperation Organization

Mendee Jargalsaikhan¹ (2012)

The Shanghai Cooperation Organization (SCO) is often presented as the flagship of the new regional dynamics in Central and Inner Asia. When discussing the status of observer countries, the international attention is focused on the complex role of Iran, India, and Pakistan in the organization, and how their potential upgrade to a full membership could impact the regional balance or even the world order. With the new status of observer given in June 2012 to Afghanistan, and dialogue partner status offered to Turkey, it is worth highlighting the position of small countries in this regional organization dominated by the most rapidly rising powers in Asia.

Mongolia has had observer status in the SCO since 2004 and, contrary to Iran, India, and Pakistan, is not interested in becoming a full member. When the Shanghai Five was founded in 1996, Ulaanbaatar did not join any of its activities because all of the major issues, which concerned the founder members—border delimitation and demilitarization, and fighting against non-traditional threats—were not relevant for the country: the Sino-Mongolian border was demarcated in 1962; bilateral relations with China were normalized in 1989; the Soviet military withdrew completely by 1992;² and the so-called “three evils” (terrorism, extremism, and secessionism), as coined by the Shanghai Five members, did not exist in Mongolia. Even when the SCO began to focus on wider regional issues, Mongolia responded cautiously, with selective participation in SCO political, economic,

and cultural events, but took a reluctant stance towards security-oriented activities.

Even within the SCO emblem (Picture 1), Mongolia's blank mark indicates the organization's incomplete regional representation in Inner Asia. This paper explores Mongolia's reasons for its non-membership stance and argues that this attitude signals its growing Northeast Asia identity, its commitments to democracy, and its independence from its powerful neighbors.

After a lot of debate about the country's geopolitical orientations in early 1990s, Mongolian elites agreed to pursue integration with both Northeast and Central Asia, given the country's historical, ethnic, and cultural ties with both sub-regions.³ However in past two decades Mongolia has integrated with Northeast Asia more than with Central Asia.

Economic and cultural interaction with all the Northeast Asian countries has shaped Mongolia's evolution since the collapse of the Communist regime. Today its trade with Russia revolves around fuel imports and shuttle trade with neighboring Siberian and Far Eastern regions. Despite traditional anti-Chinese sentiment, China is considered Mongolia's main gateway towards the Asia-Pacific region, which is a major source of investment, and a reliable market. Beijing's soft policies of visa exemptions, access to Chinese medical facilities, and educational opportunities lure many Mongolians for whom the Chinese market, infrastructure, and goods are more accessible.

Japan has been Mongolia's leading donor since early 1990s and now eyes its natural resources, especially rare minerals and uranium. Through sustained cultural exchanges, Mongolians also have a growing exposure

Picture 1. The Shanghai Cooperation Organization (SCO) Emblem



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- 2 Shakti Madhok, *Sino-Mongolian Relations 1949-2004* (New Delhi: Reliance Publishing House, 2005), 99; Alan Sanders, “Foreign Relations and Foreign Policy,” in *Mongolia in Transition: Old Patterns, New Challenges*, ed. Ole Bruun and Ole Odgaard (London: Routledge, 1996), 219; Tsendendambyn Batbayar, *Mongolia's Foreign Policy in the 1990s: New Identity and New Challenges* (Ulaanbaatar: The Institute for Strategic Institute, 2002), 124-136.
- 3 Tsendendambyn Batbayar, “Geopolitics and Mongolia's Search for Post-Soviet Identity,” *Eurasian Geography and Economics* 43, no. 4 (2002): 323-335.

to Japanese culture, as can be seen from the anecdotal evidence of Mongolian wrestlers leading the Japanese sumo since 2003. Mongolia also has relations with both Koreas. Around 30,000 Mongolians currently work in South Korea whereas over 2,000 North Koreans and 3,000 South Koreans work in Mongolia.⁴ Thanks to a growing number of air routes established with Northeast Asia, visitors from China, South Korea, and Japan are increasingly leading the annual statistics of tourism in Mongolia.⁵ Furthermore, Ulaanbaatar also concluded a strategic partnership agreement with China in 2011, and similar documents are in negotiation with Japan and South Korea.⁶

Mongolia's integration with the Central Asian region is in stark contrast with this rising Northeast Asian identity, despite the acknowledgement of important historical links and a strong political commitment. Mongolia established diplomatic relations with the five Central Asian countries immediately after their independence and concluded a number of treaties and agreements, but they were not followed by any substantive interactions. Only Kazakhstan and Mongolia have embassies in respective capital cities, and noticeable economic, educational, and cultural ties, mainly due to the Kazakh ethnic diaspora in Mongolia.⁷ Mongolia also has political ties with Kyrgyzstan, as both countries are considered democratic outposts and shared nomadic heritage and lifestyles.⁸ With the three other countries, Uzbekistan, Tajikistan and Turkmenistan, relations are minimal, or nonexistent.

Mongolia's desire to be better integrated with Central Asia is constrained for three reasons. First, all are landlocked states with similar economies mostly based on extractive industries, and agriculture – or animal husbandry for some. This geo-economic factor shapes their foreign policies to look outward – towards Europe, China, Japan, and Middle East – for foreign investment

and export markets. Second, the Soviet policies interrupted centuries' long ties between both sub-regions. During the twentieth century, Ulaanbaatar was dealing only with Moscow, with no direct contact with the federated Central Asian republics. The Soviet Union was also careful not to allow any shared border between the Kazakh Republic and Mongolia,⁹ and today, this physical separation – despite being only about 40 kilometers – further complicates inland routes between both countries. Third, for two decades all international organizations and major external powers have treated Mongolia separately from Central Asia, which precludes mutual interactions. Although Mongolia considers itself as both a Northeast Asian and Central Asian state, this second identity over the last two decades has waned noticeably.

Mongolia's Refusal of the SCO as an "Authoritarian Club"

Among the Communist and post-Communist Asian countries, Mongolia is the only one that can legitimately claim to be a democracy. Although the Kyrgyz Republic makes similar commitments, Mongolian democratization process has been firmer and less chaotic. Since 1991, Mongolia has been rated as an electoral democracy on par with Czech Republic, Poland, Slovenia, and Baltic states, and higher than all former Soviet republics.¹⁰ A parliament-dominated political system and democratic elections are seen as the "only game in town" to obtain political offices.¹¹ The most recent revision of the election law introduced proportional representation, quotas for more female candidates, and financial transparency.¹² The space for civic activities and voluntary associations is protected by the state; and local civil society organizations and media are influential players in politics.

4 Embassy of Republic of Korea in Ulaanbaatar, mng.mofat.go.kr/worldlanguage/asia/mng/mission/greetings/index.jsp. The number of North Korean workers changes due to seasonal requirements, although there is a growing interest from Pyongyang to send more workers to Mongolia.

5 According to the 2010 Statistical Yearbook by the Mongolian National Statistical Office: 290,092 Chinese, 125,543 Russian, 42,551 South Korean, and 14,279 Japanese citizens visited Mongolia in that year. Other important numbers are 12,982 visitors from the United States and 5,792 from Kazakhstan. See *Mongolian Statistical Yearbook* 2010, 302, http://www.nso.mn/v3/index.php?page=free_access.

6 See "Wen Jiabao Holds Talks with Mongolian Counterpart Batbold," Press Release of the Ministry of Foreign Affairs of the PRC, June 16, 2011, <http://www.fmprc.gov.cn/eng/wjbj/zjg/yzs/gjlb/2742/2744/t832162.htm>; Joint Announcement of Prime Ministers of Mongolia and Japan, March 12, 2012, http://www.mofa.go.jp/region/asia-paci/mongolia/pdfs/mongolia_1203_4.pdf; "Korea, Mongolia agree to boost long-term cooperation," Cheong Wa Dae, August 23, 2011, http://english.president.go.kr/pre_activity/summit/diplomacy.

7 As reported in the 2010 census, there is about 101,000 Kazakhs living in Mongolia, or 3.86 percent of the total population, www.toollogo2010.mn. The Mongolia Embassy in Kazakhstan reported 76,800 Mongolians becoming citizens of Kazakhstan and 46,000 people having dual citizenship. See Embassy of Mongolia in Kazakhstan, June 5, 2009, <http://www.mongemb.kz/en/node/15>. According to the National Statistical Office Branch of the Bayan-Ulgii Province, migrations to Kazakhstan slowed, but Kazakhstan is becoming a key destination for Mongolian students. See *The 2011 Statistical Report*, <http://web.nso.mn/portal/indexc.php?v=7&m=60>.

8 The latest high-level exchanges include Kyrgyz parliamentary delegates to Ulaanbaatar in April 2011 and Mongolian Presidential visit to Bishkek in April 2012. During this visit, both sides agreed to cooperate in several areas, including an Ulaanbaatar-Bishkek-Istanbul air route, www.president.mn/eng/newsCenter/viewNews.php?newsId=690.

9 Alexander C. Diener, "Problematic Integration of Mongolian-Kazakh Return Migrants in Kazakhstan," *Eurasian Geography and Economics* 46, no. 6 (2005): 465-478.

10 Steven Fish, "The Inner Asian Anomaly: Mongolia's Democratization in Comparative Perspective," *Communist and Post-Communist Studies*, 34 (2001): 323-338; Verena Fritz, "Mongolia: Dependent Democratization," *Journal of Communist Studies and Transition Politics* 18, no. 4 (2002): 75-100; and also "Freedom in the World 2012," Freedom House, <http://www.freedomhouse.org>.

11 Verena Fritz, "Mongolia: The Rise and Travails of a Deviant Democracy," *Democratization*, 15 (2008): 766-788.

12 The English translation of the Law on the Election is available at the website of the General Election Commission of Mongolia, <http://www.gec.gov.mn/details/421>.

This strong commitment to democracy strengthens the idea of Mongolia's specific identity among the Central Asian and East Asian former communist countries like Laos or Vietnam. It provides opportunity for Mongolia to garner substantial financial assistance from donor nations (Japan, Germany, United Kingdom), international financial institutions (the World Bank, the International Monetary Fund, the Asian Development Bank), and Western powers, mostly the United States. Joining the SCO could therefore weaken both Mongolia's domestic democratization efforts, and its international image with the European Union or the United States. Despite the organization's declaration about regional integration and cooperation, that works in theory with Mongolia's own agenda, the SCO is perceived in Ulaanbaatar as an "authoritarian club" whose members' main concern is their own regime security.¹³ Observer states like Iran, and Pakistan, and dialogue partners like Belarus, and Sri-Lanka intensify Mongolia's perception of the SCO as a political club whose regional narrative is only of secondary or tertiary importance.

Independence

As one of the frontier states of Inner Asia, Mongolia's concern has always been to secure its political and economic independence from its powerful neighbors, Russia and China. Albeit not a Soviet republic, Mongolia's foreign policy during most of the twentieth century was largely dictated by Moscow. Following the disintegration of the Communist bloc, the country has enjoyed true independence and advanced its own 'third neighbor' policy, directed at developed democracies in order to obtain political support, diversify economy, and increase cultural ties.¹⁴

To avoid causing concerns in Beijing and Moscow the 'third neighbor' policy has no intention to develop closer security ties with Western countries. All military-to-military cooperation with NATO members focuses for instance on development of peacekeeping capabilities.¹⁵ Ulaanbaatar also developed a multilateral diplomacy aiming to increase its international visibility and participation in international organizations (United Nations, Group 77, Non-Aligned Movements, and the ASEAN Regional Forum).

In the security field, Mongolia has made two major achievements: institutionalizing its nuclear weapon-

free status and contributing to peacekeeping operations. The nuclear weapon-free zone, along with non-aligned principle (i.e., not hosting any foreign military forces and not joining military alliance), enhances Mongolia's balanced geopolitical positioning. Subjecting itself to the SCO internal rules and geopolitical strategies might drastically reduce its independent foreign policy. It could also increase leverage capabilities from Moscow or Beijing, and limit Mongolia's 'third neighbor' strategy, especially towards the United States, India, and Turkey.

Views of Political Elites and Public Opinion

Mongolian political elites may have differing views in regards to their country's identification with either sub-region. However, the most prevailing one is to maintain the non-membership stance so as to not jeopardize Mongolia's sovereignty and independence, until the SCO objectives, rules of and intentions of member states become clear.

Nonetheless Mongolian political elites are also interested in cooperation with the SCO on different aspects. First, the organization offers unique opportunity to interact with many state leaders to discuss bilateral issues and advance Ulaanbaatar's concerns alongside other small states. Second, the SCO is likely to evolve as a regional network to develop economic, cultural, and educational ties. In this area, Mongolia hosted the SCO Business Forum and actively participates in it. Third, the SCO collaboration against drug trafficking and terrorism is in the interest of Mongolian law enforcement agencies – as there are an increasing number of drug-trafficking cases in Mongolia. As expressed by the Mongolian President at the 12th meeting in June 2012, Mongolia is also interested in the SCO initiatives of energy and food security collaboration.¹⁶

Public views are similar to those of the elites. In 2009 only 14.5 percent respondents preferred to join the SCO while 32.3 percent answered to maintain the observer status, and 15.4 percent opposed to joining. Again in a 2010 poll, 34.4 percent responded to remain as an observer while 18.8 percent opposed to joining the SCO. However, the Mongolian public views Russia as their best partner. According to the 2011 opinion survey of the Sant Maral Foundation Research Center, Mongolians feel better communicating and cooperating with Russians (54.5%), Chinese (32.9%), South Koreans (30.2%), and Japanese (20.5%).¹⁷

13 Thomas Ambrosio, "Catching the 'Shanghai Spirit': How the Shanghai Cooperation Organization Promotes Authoritarian Norms in Central Asia," *Europe-Asia Studies* 60, no. 8 (2008): 1321-1344.

14 Batbayar, "Geopolitics and Mongolia's Search for Post-Soviet Identity"; Dorjjugder Munkh-Ochir, "Mongolia's 'Third Neighbor' Doctrine and North Korea," *Brookings Institution Papers*, February 2011, <http://mongoliaworld.net/2011/11/16/mongolias-third-neighbor-doctrine-and-north-korea/#more-95>; and Alan Wachman, "Mongolia's Geopolitical Gambit: Preserving a Precarious Independence while Resisting 'Soft Colonialism,'" *EAI Fellows Program Working Paper Series*, 2010. The Revised Foreign Policy Concept identified these states under the "Third Neighbor" category. The Revised Foreign Policy Concept, which defines the "third neighbor" strategy, was approved by the Parliament on February 2011.

15 Mendee Jargalsaikhan, "Finally A New Era in NATO-Mongolia Relations," *Voices from Central Asia* No. 1, June 2012.

16 Address of the Mongolian President to the 12th Meeting of the Council of Heads of Member States of the Shanghai Cooperation Organization, June 7, 2012, <http://www.president.mn/mongolian/node/2645>.

17 Sant Maral Foundation Political Barometer of 2008, www.santmaral.mn/en/publications.

Table. The Best Partner Question

Which Country is the Best Partner for Mongolia? (In Percent)			
	April 2010	May 2011	April 2012
Russia	75.7	71.3	68.2
China	18.8	20.6	19.6
USA	27.4	29.8	31.8
European Union	10.6	11.5	13.5
Japan	15.8	21	22
South Korea	11.4	12.1	11.6
Others	5.3	7.1	7.2
Total	100	100	100

Source: Sant Maral Foundation of Mongolia, <http://www.santmaral.mn/en/publications>

In three consequent opinion surveys (2010, 2011, 2012), public opinion maintains its view of Russia as Mongolia's best partner, even if in last two decades interactions between Mongolians and Russians have been reduced to minimal levels and people-to-people exchanges have been further complicated by Russia's abolition of its visa waiver policy for Mongolia in 1995.

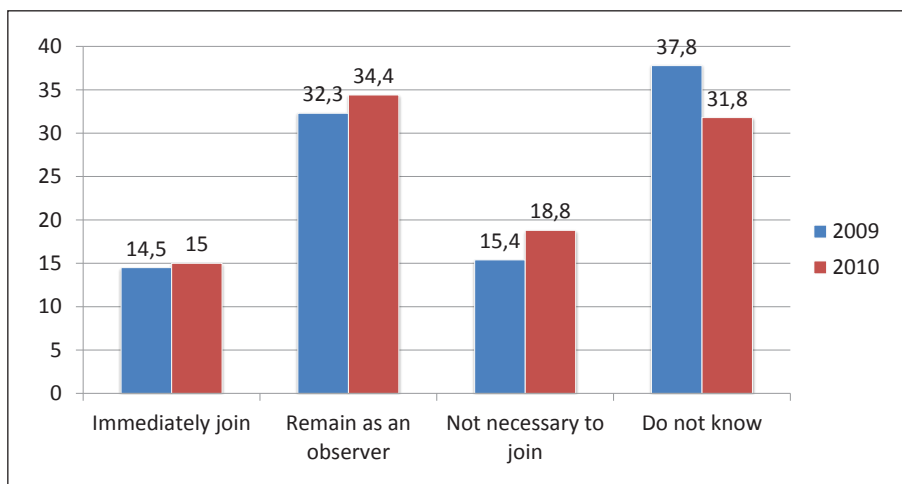
Concluding Remarks

Mongolia sends regular signals about its commitment to maintaining its SCO non-membership status, but this positioning could become difficult in the years to come, depending on regional developments.

In a scenario of amicable Sino-Russian relations, and non-revival of tensions between Russia and China on one side, and the United States on the other, Mongolia can continue to enjoy balanced relations with all its partners with no pressures from Moscow and Beijing in terms of its geostrategic orientation. In case of a rift in Sino-Russian relations, Mongolia's neutrality would be at risk, with pressure from both sides for choosing one against the other. In this case, Mongolia's non-membership in the SCO appears to favor Russia, as Mongolian public opinion sees Moscow as the 'lesser evil' when compared to China. In a third scenario where both Russia and China consider their interests threatened by other great powers (Japan during the First and Second World Wars; the United States at the early period of Cold War, or in the post 9/11 period), small countries become symbols of a larger global competition. Mongolia's multi-vectored strategy and its 'third neighbor' policy could therefore be undermined by Moscow and Beijing's interpretation that these policies are a pro-American stance.

Whatever the SCO's future will be in the years to come, Mongolia will continue to promote its Northeast Asian identity more than its Central Asian one, and its non-membership strategy toward the organization. Its economic development does not need to be further integrated with Russia and China, and Mongolia's political regime and foreign policy's independence will be better preserved outside the SCO framework than inside it. Moreover, the unknown impact of post-2014 on Central Asia and Afghanistan, with a potential revival of security concerns, does not constitute a push factor for Ulaanbaatar to integrate into the Shanghai Cooperation Organization.

Figure. Mongolian Public Opinion on the SCO Membership



Source: Public Opinion Polls, National Intelligence Academy, 2011

Lingering Anti-Sinic Sentiments in Post-Communist Mongolia: Why Dislike the Chinese?

Mendee Jargalsaikhan¹ (2015)

Sino-Mongolian relations have been amicable ever since the Sino-Soviet and Sino-Mongolian rapprochements of the late 1980s, after over three decades of hostility. Today Mongolia and the People's Republic of China have broadened relations in all areas of cooperation, returning to a state of relations similar to the 1950s. However, in Mongolia, anti-Chinese discourses continue to appear in daily conversations, the news media, in Internet comments, literature, hip-hop, and even graffiti. This paper advances four reasons for such lingering anti-Chinese sentiment. First, like any small state, Mongolia remains vulnerable to the dominance of its two large neighbors. Memories of colonization are still vivid. Second, Mongolians, like many other ethnic groups, are concerned with the population's "purity of blood." Third, the communist regime's use of anti-Chinese sentiment during the Sino-Soviet conflicts of the 1960s-70s has had a lingering impact on the views and attitudes of Mongolians toward China, Chinese people, and Chinese culture. The anti-Chinese myths and narratives that were institutionalized have not been critically analyzed. Finally, various external and internal actors use anti-Chinese sentiment to forward their business interests.

Introduction

A few days before the 2009 presidential election in Mongolia, the candidate Tsakhiagiin Elbegdorj, with tears in his eyes, asked his mother to speak on national television to prove that his father was not of Chinese origin.² This dramatic scene touched many viewers even though the making of allegations about someone's ethnic Chinese ties is an often used tactic in Mongolian

politics. Following anti-Sinic discourses in contemporary Mongolia, one will readily conclude that the pervasiveness of such discourses is the result of the institutionalization of anti-Chinese ideology, anti-Sinicism.³ From graffiti and hip hop to media coverage, online comments, and daily conversations, anything related to China, Chinese people, and their culture is often negatively depicted. Western scholarly works and foreign news media coverage never fail to mention the uneasy feelings of Mongolians toward Chinese. Mongolian public opinions on China are noticeably negative in domestic opinion polls, as well as comparative polls like barometer studies.⁴ Billé rightly argues that, "Anti-Chinese discourse in Mongolia cannot be solely ascribed to political games, and the pervasiveness of these sentiments has a number of social and psychological underpinnings."⁵

My generation, which grew up during the communist regime, sang anti-Chinese songs, enjoyed reading novels and watching movies in which Chinese were negatively depicted, were inspired to look for Chinese spies, and learned to make prejudicial judgments of Chinese-like appearances. In retrospect, however, I am saddened at the thought of my beloved Mongolian language teacher having to deny that her father was Chinese or that she had Chinese language ability, as well as at the idea of those of my classmates who were afraid of being teased with derogatory terms, such as *huaqiao* (overseas Chinese), *danjaad* and *luuhaan* (nicknames for Chinese nationals in Mongolia), *erliiz*, or *hurliiiz*, because of their physical appearances.⁶

These reflections led me to ask the following question: Why is it that Mongolians dislike Chinese? Critical scholarship on the notion of race, particularly Balibar's concept of neo-racism, only provides partial explanations of the phenomenon, because, in the absence of any biological distinction (e.g., skin color), the clearest differentiation between Chinese and Mongolians appears

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2 Five days before the presidential election, journalist D. Ariunaa's coverage about the Chinese origins of Elbegdorj was aired by TV5 channel, a Mongolian commercial news channel, on May 19, 2010. According to her sources, Elbegdorj's father was believed to be a Chinese migrant.

3 The terms "Sinic" and "Chinese" are used interchangeably.

4 According to a 2013 opinion survey by the Research Center of the independent, non-profit, Sant Maral Foundation, respondents indicated that Mongolians were better in communication and cooperation with Russians (43%) and with Chinese (38.3%). Respondents also indicated that Russia (71.9%) would be the best partner for Mongolia, while only 23.8% indicated that China would be the best partner, <http://www.santmaral.mn/sites/default/files/SMPBE13%20Apr.pdf>.

5 Franck Billé, "Different Sides of Blue: Gay Men and Nationalist Discourse in Mongolia," *Studies in Ethnicity and Nationalism* 10, no. 2 (2010): 188.

6 *Erliiz*, a concept of "half-breed" or "hybrid," and *hurliiiz*, one born of an *erliiz*, according to anthropologist Bulag, "conceived not only as biological category but also as a cultural one." See Uradyn Erden Bulag, *Nationalism and Hybridity in Mongolia* (Oxford: Oxford University Press, 1998), 140.

to be their culture (especially language).⁷ The most common approach to grasping this phenomenon has been that of identity politics; however, I argue that multiple factors contribute to lingering anti-Chinese sentiments in post-communist Mongolia.⁸

I advance four reasons. First, anti-Chinese feeling is related to memories of colonization. Similar to any small state, Mongolia feels vulnerable on account of its geographic location between two populous, armed, and expansionist major powers—China and Russia. Memories of Chinese and Russian colonization are still vivid. Second, Mongolians, like many other ethnic groups, are concerned with the population's "purity of blood." The Mongolian state and society employ a form of biopower, in Foucault's sense, to maintain the purity of the population.⁹ Third, the communist regime's use of anti-Chinese sentiment during Sino-Soviet conflicts in the 1960s-70s has had a lingering impact on the views and attitudes of Mongolians toward China, Chinese people, and Chinese culture. There has been no deconstruction of institutionalized anti-Chinese myths and narratives. Lastly, various external and internal actors use anti-Chinese feelings to further their own economic interests.

Two cautionary remarks must be made before expanding my arguments. First, the temptation of making generalizations about popular anti-Chinese sentiments in Mongolia without a careful study should be avoided.¹⁰ As a result of increased interactions between Mongolians and Chinese, and the availability of information following the normalization of Sino-Mongolian relations from 1990 on, we must acknowledge the existence of diverse and changing views and attitudes toward Chinese people and their culture. Second, we must not exaggerate the violent character of anti-Chinese sentiments, and in comparison to anti-Chinese violence in other parts of Asia, the degree of violence has been low in Mongolia. Therefore, my aim in this paper is to explain some factors for the lingering anti-Chinese discourses to be found in public conversations, media, and virtual spaces. I have no intention of trying

to determine the scope, intensity, and consequences of this under-examined social phenomenon, namely anti-Chinese sentiments in Mongolia.

Memories of Colonization

After two centuries of dominating Eurasia, the Mongol Empire underwent centuries of power struggle and gradually disintegrated into three major parts: Inner Mongolia, Mongolia (known as Outer Mongolia), and Western (Oirad or Zuungar) Mongolia. All three became colonies of the Manchu-led Qing Dynasty of China in the 17th-19th centuries, and of the Republic of China in 1915-1921. Inner Mongolia remained part of the People's Republic of China (PRC) and Mongolia became a Soviet satellite state between 1921 and 1990.

Mongolia's subjugation to the Qing Dynasty was unique in several ways. First, the Manchus, who are non-Chinese people ethnically and linguistically, established the Qing Dynasty, which lasted from 1644 until 1911. Inner Mongolia and Mongolia yielded voluntarily in 1636 and 1691 respectively.¹¹ The main reason for the voluntary subjugation of the latter was related to its fear of Western Mongolian military threats. Second, the Qing Dynasty treated Mongols¹² differently to Chinese subjects because of their similarities in terms of ethnicity (nomadic culture, religion, language) and even physical appearance.¹³ The Manchus and Mongols of the Bureau of Outer Mongolia ran Mongolian affairs. This was the only department in which the Chinese held no official positions.¹⁴ Interestingly, relations between Manchus and Mongols were strengthened by the early Manchu policy of marrying their princesses with Mongolian nobles.¹⁵ Third, at the request of the Mongols, the Manchus implemented special protectionist policies to defend the Mongols from ethnic and cultural assimilation with Han Chinese. For example, detailed regulations for Chinese traders were formulated for their entry and trade in

7 Balibar argues that "a racism whose dominant theme is not biological heredity but the insurmountability of cultural differences, a racism which, at first sight, does not postulate the superiority of certain groups or peoples' in relation to others but 'only' the harmfulness of abolishing frontiers, the incompatibility of life-styles and traditions." See Etienne Balibar, "Is There a Neo-Racism?" in *Race, Nation, Class: Ambiguous Identities*, ed. Etienne Balibar and Immanuel Wallerstein (London: Verso, 1991), 21.

8 For the identity politics explanation of anti-Chinese sentiments in Mongolia, see Ole Bruun, *Precious Steppe: Mongolian Nomadic Pastoralists in Pursuit of the Market* (Oxford: Lexington Books, 2006); Grégory Delaplace, "Chinese Ghosts in Mongolia," *Inner Asia* 12, no. 1 (2010): 127-141; and Billé, "Different Sides of Blue," 187-203.

9 See Michel Foucault, *Society Must Be Defended: Lectures at the College de France (1975-1976)* (New York: Picador, 2002), 256.

10 Although public opinion polls suggest the persistence of "anti" attitudes in any nation, more studies are needed to validate such a claim. Public attitudes are dynamic. Even when people appear to demonstrate coherent, unfavorable attitudes, they have multiple attitudes depending on the issue. Their attitudes are subject to change due to personal factors (cultural and religious orientation, education, experience, and age), as well as political, socio-economic, and geographic factors.

11 Gerard Martin Friters, *Outer Mongolia and Its International Position* (Baltimore: John Hopkins Press, 1949), 151.

12 I use the term "Mongols" to refer all Mongolian ethnic groups, namely Mongols of Inner Mongolia, of Mongolia (Outer Mongolia), and of Western Mongolia, while reserving the term "Mongolians" exclusively for the people of independent Mongolia.

13 Owen Lattimore, *Nationalism and Revolution in Mongolia* (New York: Oxford University Press, 1955), 7-21.

14 Friters, *Outer Mongolia and Its International Position*, 154.

15 *Ibid.*, 152.

Mongolia. These regulations prohibited the Chinese from marrying Mongolian women or from taking their families to Mongolia.¹⁶ Fourth, Mongolia was strategically and militarily important for the Manchus. The Mongols were used as a military reserve to suppress rebellions and to conduct expansionist campaigns within China. Mongolian territory, especially the western parts, served as a military and logistics base to support the military campaign against the Western Mongols and to prevent Russian expansion into Mongolia.¹⁷

At the same time, the Manchus were cautious about Mongolian unification, which could present a challenge to their rule over China. Therefore, the Manchus deepened the division between Inner Mongolia and Outer Mongolia, introduced more administrative subdivisions within each,¹⁸ enhanced the dissemination of the Buddhist religion, and discouraged economic development to keep it a backward, restive colony.¹⁹ Manchu policies towards Mongolia remained intact until the last Manchu Emperor accepted a Chinese colonization proposal to increase the Han population and to protect the borders of Mongolia.²⁰

In 1902, Chinese officials of the Qing Dynasty established a new administration for Mongolia in order to open the lands of Inner Mongolia and Mongolia to Chinese settlers for the cultivation and extraction of natural resources, the construction of a railway, and an increased assimilation with Chinese culture (e.g., to permit Chinese marry to Mongolian women and to settle, to write official documents in Chinese, and to use Chinese names).²¹ Despite resistance to such colonization, the new administrative policy was implemented in Inner Mongolia but failed in Mongolia. Mongolia declared its independence as the 1911 Revolution in China marked the collapse of the Qing Dynasty. To inherit the territory of the Qing Dynasty, the Chinese Republic denounced Mongolia's independence at the tripartite discussions

with Mongolia and Russia at Khiagt in 1915 and occupied Mongolia militarily from 1919 to 1921.²² The Chinese military occupation increased the number of Chinese settlers, provided more privileges to Chinese business activities,²³ and brutally suppressed the Mongolian population.²⁴ However, the Chinese occupation of Mongolia ended in 1921, when Mongolian nationalists, together with first, fleeing White Russian militaries, and later the extensive Soviet support, liberated Mongolia from the Chinese military occupation.²⁵ However, Inner Mongolia, including its restive Barga region, was to remain part of China. Even though official Chinese statements claiming Mongolia as a lost territory ended upon the formal recognition of Mongolian independence by the Chiang Kai-shek government in 1945 and the PRC in 1949, informal claims have since been made by both Chinese and Taiwanese officials.

The Russian domination of Mongolia began in 1921 and went through several different stages. The most brutal stage of Russian domination occurred during the period of 1924 to 1947, during which time the Soviet secret police were instructed to carry out massive purges of the Mongolian anti-communist, nationalistic elites, intellectuals, public servants, and monks.²⁶ Following this period, Mongolia benefitted from extensive Soviet assistance to transform it from a backward agrarian state into a socialist-style economy, and particular achievements were made in education, health, and state-institution building.²⁷ Soviet domination differed in several respects from Chinese colonial policies. First, Russia was regarded as a potential protector of Mongolian interests, since it supported the Mongolian declaration of independence in 1911. Second, Soviet Russia did not appear to have the intention of bringing a large number of Russian settlers or of annexing Mongolia like the other Central Asian republics. Third, the Soviet military deployment

16 Ibid, 155; and Lattimore, *Nationalism and Revolution in Mongolia*, 13-14.

17 Peter C. Perdue, *China Marches West: The Qing Conquest of Eurasia* (Cambridge: Harvard University Press, 2005); and Charles R. Bawden, *The Modern History of Mongolia* (London: Kegan Paul International, 1968), 104.

18 David Sneath, *Changing Inner Mongolia: Pastoral Mongolian Society and the Chinese State* (Oxford: Oxford University Press, 2000), 9-10.

19 Owen Lattimore, *Studies in Frontier History* (London: Oxford University Press, 1962); and Lattimore, *Nationalism and Revolution in Mongolia*; and Friters, *Outer Mongolia and Its International Position*, 155.

20 See, Mei-hua Lan, "China's 'New Administration' in Mongolia," in *Mongolia in the Twentieth Century: Landlocked Cosmopolitan*, ed. Stephen Kotkin and Bruce A. Elleman (Armonk: M. E. Sharpe, 1999), 41.

21 Ibid., 40-53.

22 See Bat-Erdene Batbayar (Baabar), *Twentieth Century Mongolia: History of Mongolia* (Cambridge: The White Horse Press, 1999), 188-195; Friters, *Outer Mongolia and Its International Position*, 163-193.

23 Friters, *Outer Mongolia and Its International Position*, 156-162; Lan, "China's 'New Administration' in Mongolia," 41.

24 Although the numbers differ, there were about 80,000 Chinese in Mongolia from 1919 to 1920. See George Gregory S. Murphy, *Soviet Mongolia* (Berkeley: University of California Press, 1966), 59. Many of them were merchants who were expelled after Mongolia's independence in 1911 and now come to collect their properties and debts.

25 Robert Arthur Rupen, *How Mongolia is Really Ruled* (Stanford: Hoover Institution Press, 1979), 23-29; Murphy, *Soviet Mongolia*, 1-28.

26 Out of the 30,000 people who were executed in 1930s, 17,000 were monks in addition to the 20,000-25,000 monks who were persecuted in the 1920s. And, 20-30,000 Mongolian refugees entered Inner Mongolia and Xinjiang escaping from the communist regime brutality. See, Shagdarii Sandag and Harry Kendall, *Poisoned Arrows: The Stalin-Choibalsan Mongolian Massacres, 1921-1941* (Boulder: Westview Press, 2000); and Batbayar (Baabar), *Twentieth Century Mongolia*, 309. The total number of the Mongolian population at that time was debatable, but lay between 647,000-800,000. See Xiaoyuan Liu, *Reins of Liberation* (Washington, DC: Woodrow Wilson Center Press, 2006), 23; and Murphy, *Soviet Mongolia*, 180.

27 See Alan J. K. Sanders, *Mongolia: Politics, Economics and Society* (London: Frances Pinter Publishers, 1987), 84-123.

to Mongolia also served the Mongolian interest of maintaining its independence, in addition to serving overall Soviet geo-strategic objectives. The Mongolian military was deployed three times in accordance with Soviet geo-strategic rationale vis-à-vis Japan and China: to destroy the fleeing White Russians forces in 1921-1925,²⁸ to fight against Japanese expansion in 1936-1945,²⁹ and to strengthen its strategic advantages during Sino-Soviet tensions in the 1960s-1970s.³⁰ Finally, Mongolia secured Chinese recognition of its independence and UN membership in 1961 with the explicit supports of the Soviets.

As a small, vulnerable nation, Mongolia feels insecure and uncertain about the intentions of its expansionist neighbors. In his seminal works, Owen Lattimore has rightly compared the fate of the Mongols with that of the native Indians of North America.³¹ Mongolia and other nations with pastoral economies in Central Asia became victims of Chinese and Russian colonial expansion during the 18th and 19th centuries. Their fates were decided by Russia and China without consideration for these nomadic nations. Mongolia sees itself as a victim of colonial powers. As a result of domestic power struggles and geopolitics between major powers, it has been divided into several parts: Inner Mongolia has remained part of the PRC; Mongolia gained its independence with Russian backing; while the Buryats and Tuvans came under Russian rule. By 2010, about 80% of the population of Inner Mongolia was Han Chinese and 66% of the Buryatia Republic is ethnically Russian.³² Particularly in the Chinese case, the Sinicisation process was expedited during the Cultural Revolution, in which over 22,900 were killed, 120,000 injured, 790,000 imprisoned, and 5,000 senior Mongolian cadres purged.³³ Thanks to the competing geo-strategic and economic interests of China and Russia, only Mongolia remains as a buffer zone. History shows numerous examples of Russian and Chinese attempts to disadvantage each other by asserting their influence in Mongolia. For example, the 1911 revolution in China triggered Russian dominance in Mongolia, while the 1917 Revolution in Russia caused the Chinese to occupy Mongolia militarily. Chinese weaknesses during the world wars created opportunities for the Soviets to consolidate their bases in Mongolia. As China has gained

power, however, it has begun to demand that Russia scale down its influence in Ulaanbaatar. Due to fear of falling under the domination of either major power, or of experiencing the fate of the Inner Mongolians or the Russian Buryats, Mongolians feel vulnerable and often seek ways to escape from the colonial paths.

Out of the three colonial experiences, the Chinese one was the most brutal and humiliating. While the Mongols were treated as lower-ranking partners by the Manchus and the Russians, they were regarded as colonial subjects during the Chinese military occupation.³⁴ While the Soviets helped Mongolians to establish their national institutions (e.g., provision of resources, training of national cadres) and to run their external and internal affairs (especially the latter), Chinese and Manchu domination aimed to keep Mongols as disintegrated and backward as possible, using the land merely as a resource base. Unlike the Manchus, the Chinese and particularly the Russians are ethnically, linguistically, and physically different to Mongols. However, Chinese domination has featured the arrival and settlement of a large number of Han Chinese. This occurred during the last periods of the Qing Dynasty, and the brief Chinese occupation of Mongolia in 1919-1921. In contrast, Russian presence in Mongolia has always been only on a temporary basis. As a result, Mongolia's past colonial experience with China at the beginning of last century remains vivid and contributes to lingering anti-Sinic sentiment in contemporary Mongolia. The small state's feelings of insecurity can be triggered by any Chinese issues relating to Mongolia, ranging from the large number of Chinese labor migrations to informal Chinese claims of Mongolian irredentism.

Blood Purity—Maintaining “Mongolness”

Mongolian identity is a complicated one due to the many nomadic tribes of Inner Asia that claim their ancestral origins to be in the Mongol Empire of the 13th and 14th centuries. I thus discuss three types of identities in relation with the discourses on blood purity in post-communist Mongolia, and explain why the concern with “blood purity” contributes to lingering anti-Sinic sentiments in Mongolia. All of those discourses are focused on three major identities: Greater Mongol identity, Halh identity,³⁵ and non-Mongol identity. Greater Mongol identity

28 Murphy, *Soviet Mongolia*, 1-29.

29 Alvin D. Coox, *Nomonhan Japan against Russia*, 1939 (Stanford: Stanford University Press, 1985).

30 Rupen, *How Mongolia is Really Ruled*, 30-36, 45-49, 84-86.

31 Lattimore, *Studies in Frontier History*, 134-159, 307-324.

32 The 2010 Population Census Data of the PRC and Russian Federation. The Han Chinese settlements in Inner Mongolia began with the New Administration policies of the Republic of China (as it built railways and encouraged land cultivation by Chinese peasants).

33 Sneath, *Changing Inner Mongolia*, 114-115.

34 In regards with Chinese frontier nations, China employed the explicit racial policy that defines Han Chinese as a dominant race and treats other ethnic groups, especially Mongols, as barbarian, uncivilized people.

35 The Halh sub-ethnic group of Mongols dominated in independent Mongolia.

includes all nomadic tribes who claim they have ancestral ties with Chinggis Khaan,³⁶ while the latter two serve the purpose of protecting Halh Mongolian identity.

Greater Mongol identity, Bulag argues, is linked to a “cultural concept of identity [as] overriding the present nation-state borders, without any political implications.”³⁷ The main attributes of Greater Mongol identity are based on ancestral ties to Chinggis Khaan, Buddhism, Mongolian scripts, nomadic lifestyle, and culture. Following the fall of the Mongol Empire, Mongols fought to unite all the nomadic tribes in order to establish a Pan-Mongol state. However, attempts failed due to the geopolitics of the major powers, as well as to internal power struggles among Mongols themselves. Two examples are worth mentioning here. Upon declaring its independence in 1911 and 1945, Mongolia’s efforts to unite Inner Mongolia were discouraged by Russia. Moreover, Japan supported fleeing White Russian units to establish Great Mongolia in 1920 and then launched a military campaign in 1936-1939 to create a Pan-Mongol state, which it would use as a wedge between China and Russia. Appeals to Greater Mongolia automatically trigger concerns in Beijing and in Moscow, particularly ones related to territorial and national integrity, since many Mongols who share the Greater Mongol identity reside within their borders (i.e., Inner Mongolians in the PRC and Buryats, Kalmyks, and Tuvans in the Russian Federation). Since the 1990s, Mongolians and Mongols in neighboring countries have sought to promote this Greater Mongol identity in areas of cultural and economic exchanges.

In independent Mongolia Halh identity is the most dominant, and it was consolidated during the communist period of 1921-1989. As the Halh sub-ethnic group of Mongols dominated in independent Mongolia, Halhs claim to be the purest Mongolian identity and to possess the purest blood. At the same time, other Mongols also perceive the territory of independent Mongolia to be their ancestral center. This fact has strengthened the Halh claim to purity. However, other Mongols, and especially Inner Mongolians, rightly contest this Halh-centric claim. As Bulag argues, “The institutionalization of Halh identity as the most authentic Mongol one and as constituting the ‘Whites’ of Mongolia is also something unacceptable to many non-Halh Mongols.”³⁸ Halh identity is closely related to Mongolian citizenship, so identifying as a Halh provides some socio-political advantages (and

did so especially during the period of communist rule). In Mongolia, there are two other sub-ethnic groups: Western Mongols (usually represented by the Dörvöd) and Buryats. There are no concerns of intermarriage and or restrictions on socio-political status among Halh, Dörvöd, or Buryat people. Based on the claim to purity of blood, the Halh-centric identity also serves as the basis for loyalty arguments against Mongolians with mixed blood and Mongols living in China and Russia. For example, suspicions concerning Chinese assimilation and takeover are most commonly voiced against Mongolians with Chinese ethnic origins and Mongols of the PRC.

The last identity category includes the Kazakh minority and nationals of other foreign countries, namely Russian and Chinese nationals. As a result of Kazakh migration from the 19th century on, a visible Kazakh minority has come to constitute about 4 percent of Mongolia’s population.³⁹ Although these Kazakhs reside in the Bayan-Ulgii province, some are also scattered in the major urban centers. Because of their linguistic, religious, and cultural differences, Kazakhs have been provided more privileges (e.g., usage of Kazakh language) in addition to their citizenship entitlements.⁴⁰ Marriages between Mongolians and Kazakhs are rare mostly due to their sharp cultural differences. The number of Chinese and Russian nationals changes usually due to the political context. However, Mongolian state institutions are reluctant to provide citizenship entitlements to Chinese or Russian settlers.⁴¹ However, each of these groups has received rather different treatment, notably during the communist period, during which Mongolia’s close alliance with the Soviet Union meant that Russians had greater privileges than Chinese nationals, who were subject to state surveillance, expulsion, and discrimination.

All three categories—Greater Mongolian, Halh-centric, and non-Mongol identities—are constructed with different purposes. A Greater Mongol identity aims to be the most inclusive collective Mongol identity, posited in opposition to Russian and Chinese cultural identities. The Halh-centric identity serves the purpose of consolidating the Halh as the purest identity among Mongolians and Mongols. The non-Mongol identity, shared by those who reside within Mongolia’s borders, first, classifies them as the “other” identity, and second, assigns them a different socio-economic and political status (as Kazakhs are given citizenship status, while the other two minority

36 Munkh-Erdene explains the significance of the Chinggisid lineage in the constructing and imaging of Mongolian identity based on his analysis the structure of narratives. See Lkhamsuren Munkh-Erdene, “The Mongolian Nationality Lexicon: From the Chinggisid Lineage to Mongolian Nationality,” *Inner Asia*, no. 8 (2006): 51-98.

37 Bulag, *Nationalism and Hybridity in Mongolia*, 62.

38 Ibid.

39 Ibid., 97-103; Results of the 2010 Population Census, National Statistical Office of Mongolia, http://www.toollogo2010.mn/doc/Main%20results_20110615_to%20EZBH_for%20print.pdf.

40 Sanders, *Mongolia*, 45-47.

41 By the 2010 Census, there were over 8,000 Chinese nationals, 2,474 Russians, and, interestingly, 1,500 South Korean nationals in Mongolia.

groups—Chinese and Russians—are not). Relatedly, mixed-blood Mongolians (called *erliiz* or *hurliiz*) also encounter various types of discrimination, despite having grown up in Mongolian cultural contexts and having mastered the language. During the early stages of the communist revolution and during Sino-Soviet tensions of 1960s-1980s, Mongolians with any connections (mostly unproven ethnic/blood ties) to Chinese nationals were victimized as “Chinese spies,” excluded from the public service, and marginalized in society.⁴²

Mongolia’s concern for “blood purity” and for consolidating its identity has increased with its opening up to the global economy, the normalization of relations with China, and democratization. Mongolia has thus attempted to increase the extraction of its natural resources, to develop its infrastructure, to export agricultural products, and attract foreign investment and labor. Public outcry over the increased presence of Chinese businesspeople and construction workers has pressured the government to take more preventive measures against potential demographic expansion. Given its economic growth and available labor, China is unquestionably Mongolia’s main source of economic development (a key market and investor) and of cheap, organized labor for major construction projects (e.g., houses, roads). Besides China, more foreign nationals are now settling on permanent and temporary bases.⁴³ At the same time, the Constitution provides Mongolians with the right to travel, to reside, and to work and study abroad without restriction. The 2010 census indicated that 107,140 Mongolians reside abroad; however, other sources claim that the number already exceeds 150,000, including undocumented immigrants.⁴⁴ This increases the chances of intermarriage between Mongolians and other nationalities. Although these factors—the global economy, democratization, and normalized relations with China—complicate the state’s ability to advance policies to maintain blood purity and to consolidate a Halh-centric identity, state and social attitudes remain concerned about Chinese demographic expansions.

In 1994 the National Security Concept defines nine national security concerns for independent Mongolia, one of them being the security of the population and its “gene pool.”⁴⁵ As highlighted in the security document, disease, inbreeding in rural areas, and alcoholism were defined as the three main causes of the population’s genetic

insecurity, and the government was instructed to draft a comprehensive policy to ensure gene pool health and sustained population growth. Interestingly, a revival of the tradition of tracing family genealogy up to seven to nine generations is considered the most important method for preventing inbreeding within nine generations. Sixteen years down the track, the revised National Security Concept of 2010 continues to treat genetic security as a key national security concern. It touches on three specific goals: first, the reduction of inbreeding, of alcoholism, and of narcotics intake; second, finding a resolution to the problem of dual citizenship; and third, improving control of foreign nationals, including migrants.⁴⁶ In accordance with this new National Security Concept, immigration law limits the number of total foreign immigrants to Mongolia to a maximum of 0.5 percent, of which immigrants from any one nation should not exceed 0.17 percent.⁴⁷

Even though these documents do not explicitly address Chinese nationals, the fact that they were drafted after Mongolia’s normalization with China may certainly be a sign of the country’s historic concern of Chinese demographic expansion. Aside from state policies to protect the population’s genetic pool, the public has become more vociferous against the employment of mostly Chinese labor in construction projects, and against the presence of Chinese business investment, notably in mining, retail, and service sectors. The increased number of mostly Chinese males in Mongolia, in turn, triggers public concern for “blood purity” and suspicions of Chinese assimilation via sexual contacts. At the same time, this perception tends to give rise in Mongolia to nationalistic, racial, and xenophobic groups, which target Chinese businesses and nationals as well as Mongolian women with connections to them. Although the activities of these groups are non-violent, they along with the overwhelming negative media coverage of Chinese activities in Mongolia, anti-Chinese hip-hop songs, graffiti, and a few small, ethnically motivated clashes, have created a threatening, insecure environment for Chinese nationals as well as for Mongolian women with various links to Chinese businesses. As argued by a well-known activist, Undarya,

Conservative/xenophobic nationalism is the most, so to speak, woman-hostile discourse; it emphasizes the need to protect the biological-cultural purity of the Mongolian nation as a precondition for preserving Mongolia’s

42 Sergey S. Radchenko, “Mongolian Politics in the Shadow of the Cold War: The 1964 Coup Attempt and the Sino-Soviet Split,” *Journal of Cold War Studies* 8, no. 1 (2006): 95-119; Bulag, *Nationalism and Hybridity in Mongolia*, 150-151, 160-161.

43 The visible group is the Korean nationals. Their number increased from 400 to 1500 between 2000 and 2010. See The Result of the 2010 Census of Mongolia, http://www.toollogo2010.mn/doc/Main%20results_20110615_to%20EZBH_for%20print.pdf.

44 See The Result of the 2010 Census of Mongolia.

45 *National Security Concept of Mongolia* (Ulaanbaatar: Government Press, 1995).

46 *Ibid.*

47 Article 29.5, Law on Legal Status of Foreign Nationals, 2010.

sovereignty; it strongly advocates the reinforcement of patriarchal and patrilineal traditions that place Mongolian women's bodies and sexuality under strict masculine control.⁴⁸

Mongolia's identity construction and maintenance of "blood purity" might be explained in relation to its populous southern neighbor. First, Mongolians have witnessed the assimilation of the Manchus and Inner Mongolians into Chinese culture, and of the Buryats, Kalmyks, and Tuvans into Russian culture in the 20th century. Secondly, Mongolians feel more threatened demographically because Mongolia is the only Chinese neighbor whose population is much smaller than that of its co-ethnics in China (2.8 million versus 5.8 million). Finally, Mongols coexist with Chinese people, whose demographic expansion has historically triggered the concerns of faraway states in Africa, Europe, North America, and the Pacific.

The State Use of Anti-Chinese Sentiments

The current impact of lingering anti-Chinese sentiment in Mongolia is also related to the way that the Russian and Mongolian states have exploited such sentiment, at least since 1911. The Russian state has always considered Mongolia a key geostrategic landscape for defending Siberia. A similar geostrategic logic applies to China, since the most successful attacks on Beijing have tended to come from its north. This geostrategic competition between two major states has resulted in the separation of co-ethnic groups of Mongols. Unquestionably, China and Russia have used "anti" sentiments to consolidate their dominance in Inner Mongolia and in Mongolia respectively. This next part explains how the Russian and Mongolian states have used anti-Sinic sentiments in the pursuit of specific goals and the ongoing impact of their policies.

As Tsarist Russia expanded into northeast Asia, it responded favorably to the call of Mongolians for independence in 1911; however, Tsarist Russia was not capable of providing substantive military and economic assistance for the Mongolian Kingdom, because of its own external and internal challenges. Indeed, Tsarist Russia managed to limit Chinese influence and to advance its economic interests in Mongolia until the 1919 Chinese military occupation. After establishing a communist

government in Moscow, Soviet leaders began to realize Mongolia's geo-strategic importance for defending the Russian Far East and expanded Comintern (the Communist International) activities to northeast and inner Asian states. Thus, the Soviet state used the desire of Mongolians for independence and anti-Chinese sentiment to deploy the Soviet Army units and to strengthen the pro-communist Mongolian government.

Soviet leaders directed the Mongolian communist government to eliminate nationalistic leaders on the grounds of their being pro-Japanese, pro-Chinese, and counterrevolutionary. The massive government purges caused many Mongolians as well as foreign nationals, including Chinese, to flee from Mongolia.⁴⁹ The Japanese plan of establishing a Pan-Mongolian state (unifying both Inner and Outer Mongolia), to separate China and Russia physically, and to take Russian Siberia militarily, induced another round of Soviet military deployments in 1937-39 and the elimination of Mongolian nationalist elites and intellectuals who were against the brutal Soviet domination. From 1939 to 1949, the Mongolian territory was used by the Soviet Union to support Chinese struggles against Japan and separatist movements in East Turkestan. Following the establishment of China's communist government, three nations, namely China, Mongolia, and Soviet Russia, enjoyed over a decade of friendship, during which the mutual use of "anti" sentiments ceased. Mao's government recognized Mongolia's sovereignty in 1949, offered developmental aid along with 300,000 Chinese laborers (Mongolia accepted only 20,000), demarcated Sino-Mongolian borders in 1962, and expanded bilateral relations in all areas of cooperation.⁵⁰ During this period, Soviet geo-strategic interests in Mongolia waned on account of its postwar re-construction efforts and its focus on Central and Eastern Europe.

The amicable period of the 1950s ceased with the onset of Sino-Soviet tensions, which caused the third Soviet military and political presence in Mongolia. By 1966, the friendly relationship had disappeared, and there was, as one foreign visitor observed, a huge Soviet presence, not to mention the disappearance of Chinese participants in the annual Naadam parade, and guarded encampments of Chinese laborers—all of which was in stark contrast to the earlier visible Chinese presence, the small numbers of Soviet advisors, and the participation of Chinese workers in the Naadam parade in 1959.⁵¹ Numerous explanations

48 Tumursukh Undarya, "Fighting Over the Reinterpretation of the Mongolian Woman in Mongolia's Post-Socialist Identity Construction Discourse," *East Asia* 19, no. 3 (2001): 139.

49 According to report of the Mongolian Foreign Minister in 1925, 51,207 foreigners, including 23,919 Chinese, were in Mongolia. In 1929, the government forcibly expelled all foreigners. See Tsendendamba Batbayar, *Foreign Presence in Mongolia: Current Status and Problems* (Ulaanbaatar: Mongolian Academy of Science, 2002), 143.

50 Robert A. Rupen, "The Fiftieth Anniversary of the Mongolian People's Republic: 1921-1971," *Asian Survey* 13, no. 5 (1973): 467; Sanders, *Mongolia*, 149.

51 Harrison Salisbury, *Orbit of China* (New York: Harper & Row Publishers, 1967), 107-121.

can be given for the sudden mood swing away from China in the 1960s. First, Mongolia, unlike North Korea, was caught in the middle of the Sino-Soviet tensions by virtue of its geography. Second, ties between the Mongolian leadership and the Soviets were stronger than those between the Chinese and most of the Mongolian leaders, who were mostly educated in the Soviet Union. Third, anti-Chinese sentiments were again employed at the state level because some of the Mongolian political elites were fearful of Chinese assimilation and were uncertain about Chinese intentions. Anti-Chinese sentiments also served the political calculations of leaders to maintain a repressive control over society.⁵² Finally, the Soviets desired to eliminate the spread of Chinese influence in Mongolia and to use Mongolia as a geo-strategic buffer for their military operations against China.

During this period, anti-Chinese sentiments were forcefully institutionalized. Yumjaagyn Tsendenbal, President and Prime Minister from 1952 to 1984, and his followers easily used all of the available means of propaganda, education, and repression to frame negative narratives and images about China and Chinese people. By the 1960s, the Soviet-style education and propaganda organizations, along with other controlling organizations, had been fully established, equipped with new instruments, and manned with Mongolian specialists, who were educated and trained in the Soviet Union.⁵³ For example, a section at the Ministry of Internal Affairs was tasked with censoring media and literature material, becoming a special Department of Control for Media and Literature. Department personnel worked directly under the party leaders and the Propaganda Department of the Communist Party Central Committee in 1953. The department was responsible for censoring all publications, newspaper materials, and radio broadcasts (from 1934), as well as television transcripts (from 1967) prior to public dissemination; for controlling the content of foreign

publications, pre-screening films, documentaries, and plays; and for confiscating anti-regime publications or other restricted materials.⁵⁴ The secret police was also fully institutionalized in order to maintain control over the population.

Several sources of new information were available for Mongolians at the time: education, works of organized propaganda, newspapers, radio and television (with one Mongolian channel, and later, a Soviet channel), and rumors. From the mid-1960s and into the 1970s, most history textbooks were re-written to highlight the sacrifices made by Mongolian communists and Soviets to protect Mongolia's independence and help transform a backward agrarian society into a socialist one. Obviously, China, as the main target of the propaganda, was depicted as a nation whose historical intentions were to colonize Mongolia and to assimilate the Mongolian population, as had been the case for Inner Mongolians and Tibetans. Organized propaganda and the news media played a major role in portraying the evil intentions of the Chinese and the need for Soviet military protection.⁵⁵ The Chinese military build-up along the Sino-Mongolian borders, the Sino-Indian war in 1962, the Chinese nuclear test in 1964, Mao's statements and claims about Mongolia,⁵⁶ the Chinese Cultural Revolution (particularly in Inner Mongolia), the Ussuri River Armed Conflict in 1969, and later, the Sino-Vietnam conflict in 1979 were cited as proof of China's threat. The Mongolian communist party leaders made a barrage of critical statements against the Chinese government and expressed Mongolia's support of Soviet Union policy toward China. Whether the statements were made because of pressure from the Soviets or from Mongolians to appease their colleagues in Moscow is hard to know. At the same time, the communist party classified any news that could be used for enemy propaganda, such as accidents, failures, or mistakes that involved Mongolians and Soviets.⁵⁷ Negative rumors about a Chinese takeover,

52 Yumjaagiin Tsendenbal, who served as President and Prime Minister from 1952 to 1984, was personally not favorable toward Han Chinese. See Tsendendamba Batbayar, "Mongolian-Russian Relations in the Past Decade," *Asian Survey* 43, no. 6 (2003): 953-954; Marko Milivojević, *The Mongolian Revolution of 1990: Stability or Conflict in Inner Asia?* (London: Research Institute for the Study of Conflict and Terrorism, 1991), 19-20. He had studied in Russia for nine years and married a Russian woman. At the outset, the young 36-year-old prime minister needed to consolidate his political clout by eliminating his opponents and critics. At the time, his pro-Soviet stand was criticized by senior party leaders and intellectuals, especially during the Mongolian version of the de-Stalinization process, which involved eliminating the cult following of Khorloogiin Choibalsan's personality and the rise of nationalism in the 1950s and 1960s.

53 See Sanders, *Mongolia*.

54 The Department was also responsible for re-calling published materials, and directing and controlling the correction process. For instance, if high-level individuals were purged, the department would recall materials published by them or that included their names, images, or statements.

55 Rupen, *How Mongolia is Really Ruled*, 92-100.

56 Although the Sino-Mongolian Border Treaty was an historic gesture of the Chinese Communist Party toward Mongolia, it was not highlighted in the Mongolian press. The Chinese Foreign Minister's positive statement on the Mongolian boundary (September 29, 1965) was not noted in any Mongolian publications. In his statement, he recognized Mongolia's independence and acknowledged "There are Han chauvinists in China, who have always refused to recognize the Mongolian People's Republic. We are opposed to such Han chauvinism. Since its founding, New China has provided the Mongolian People's Republic with large amounts of aid. In recent years, the leading group in Mongolia has been following Khrushchev revisionists in opposing China. But we do not cancel our aid to it on this account.... It is for the Mongolian people themselves to decide whether co-operation with China is more in their interests. We do not oppose our will on them." See Alan Lawrence, *China's Foreign Relations Since 1949* (London: Routledge & Kegan Paul, 1975), 146.

57 Crimes or accidents involving Soviet military personnel and Soviet citizens in Mongolia, various types of technical accidents, and Soviet facilities in the country were not reported in the domestic news. However, many of these were finally disclosed in the early 1990s.

conspiracy of a *coup d'état* by Chinese nationals and mixed blood Mongolians, Chinese spy rings, or possible sabotage attempts, were widespread.

Besides these sources of new information, national films, drama, and literature were used to introduce negative images of China and Chinese people. A Mongolian national film studio was established in 1954 and its production increased in the 1960s, as Mongolian producers were graduating from the Soviet Union. Only one movie, *Ardiin Elch* (People's Envoy), depicted a positive image of the Chinese settlers in Mongolia. The movie was produced at the height of friendly Sino-Mongolian relations, in 1959. The movies, documentary films, dramas, literature, and patriotic songs all painted an image of Chinese people as evil. Chinese citizens, mostly laborers and their families, were also controlled (guarded) until their departure in 1964. Moreover, Chinese settlers, their children, people who were believed to have Chinese ethnic links, and experts on China (linguists, historians, and others with experience in China) were marginalized from the society by having their access to privileges (party membership, higher education, and government works) limited, and they were kept under the control of the secret police.⁵⁸ Tsendenbal and his colleagues eliminated some of their opposition, who were alleged to have Chinese ethnic ties or were even falsely reported as having connections with the Chinese government. Acts of repression and control systematically created fear among the population, to the point that people avoided talking about China and Chinese people; interacting with Chinese settlers, their children and the purged people; or talking negatively about the Soviets. People with Chinese ethnic connections hid their true ethnicity and most registered themselves as *Halh*, the dominant ethnic group in Mongolia.

From these parallel events, we can conclude that Mongolian political leaders fomented anti-Chinese sentiment to justify their acts of repression and purges, and that their discrimination against Chinese nationals and people of mixed-descent was about consolidating their political clout and allowing Russian leaders to reassert their influence in Mongolia. For many Mongolians, however, the acts were perceived as the government's effort to protect the Mongolian genetic pool and their nomadic culture from Sinicization.

The Mongolian state's use of anti-Chinese sentiments continued well beyond the normalization of Sino-Mongolian relations and the Soviet political and military withdrawal from Mongolia in the 1990s, for several reasons. First, its political elites and intellectuals, who were subject to extreme anti-Chinese propaganda for more than two decades and who are unfamiliar with the

new China, have been unwilling to undertake a critical examination of the intentionally negative narratives about China since the Cold War. Perhaps one might say that a nation needs to have an "enemy" or "uncertainties" to justify its national security policy.

Second, films and literature increasingly fall under a nationalistic and patriotic genre that continues to employ anti-Chinese sentiment. Third, Mongolia has succeeded in making its political transition, while the Chinese people's call for democracy has been ignored. Finally, media coverage has mainly been focused on negative events and incidents involving Chinese people and the low quality of goods in Mongolia. Moreover, Western negative media coverage on China began to be welcomed into the Mongolian media, as was the case during the Cold War. Because these love/hate relations between neighbors have been viewed extremely darkly for 24 years, few intellectuals have ventured to make positive comments about China, while most politicians have been afraid to make such a move, deeming it "suicidal." Consequently, negative information and images continue to be used by Mongolians to highlight their key differences to the Chinese: pastoral nomadic society vs. agrarian society; Buddhism and Shamanism vs. Confucianism; Mongolian language vs. Chinese language; and democracy vs. authoritarian governance.

Use of Anti-Chinese Sentiment for Economic Interests

Historically, anti-Chinese sentiment has been used to foster economic interests in Mongolia, a landlocked economy based on mining, animal husbandry, and, due to its severely dry continental climate, a limited agricultural plantation. From the late 18th century, Mongolia was considered, on the one hand, as a source of animal products and of natural resources such as coal, and, on the other, as a market for Chinese goods and banking services. Many historical records demonstrate that Mongolians incurred enormous debts to Chinese merchants and bankers, and used mostly Chinese products by the beginning of the 20th century.⁵⁹ As a result, anti-Chinese sentiment often led to violent struggles against the Manchu and then Chinese colonial authority, as well as against Chinese traders and speculators. This certainly helped Russia, which took advantage of anti-Chinese momentum in Mongolia to introduce Russian goods, to obtain favorable trading conditions for Russian traders and bankers, and to expand its economic interests into Northeast Asia. Except for the period of 1950-1964, Russia monopolized Mongolia's economy right up until the Soviet Union's dissolution in

58 Bulag, *Nationalism and Hybridity in Mongolia*.

59 For detailed discussions, see Lattimore, 1962, Batbayar, 1999, Friters, 1949, Bawden, 1968, and Lan, 1999.

1991, while Sino-Mongolian economic relations ceased for about three decades. Following the normalization of bilateral trade relations in 1989, China became Mongolia's largest trading partner (90 percent of exports and 30 percent of imports), and biggest foreign investor within two decades.⁶⁰ Even though Chinese economic interests have grown in Mongolia, anti-Chinese sentiments still serve the interests of the Mongolian state and external players, Mongolian national economic entities, and individuals (such as buyers) in the free market economy.

The most logical strategy for the Mongolian state is to have balanced economic relations with its two neighbors, while increasing its integration into the international economic system. However, such has been impossible over recent centuries. Today Mongolia is pursuing policies aimed at reviving its economic ties with Russia and regional partners like Japan, the two Koreas, Taiwan, and the European Union, in order to avoid total economic dependency on China. There are many examples. First, because of its proximity to China and the East Asian market, Mongolian natural resources have been attracting Western investors and state owned enterprises both from China and from Russia. The Mongolian state has provided more opportunities for exploring larger projects to Western companies since 1993 (e.g., from oil projects to American companies in 1993 to the major copper deposit, Oyu Tolgoi, to Canadian and Australian companies in 2010). The revised National Security Strategy drafted in 2011 imposes restrictions on foreign direct investment to one-third of Mongolia's total foreign direct investment.

Second, the Mongolian parliament has extensively debated the extension of Mongolian railways using either the Chinese (narrow) or Russian (broad) gauge.⁶¹ Third, the parliament passed legislation to restrict investment by state-owned enterprises, in the aftermath of a disclosure about a Canadian company's secret deal to sell Mongolian mining stocks to Chinese state-owned enterprises.⁶² Mongolian state policies to reduce Chinese economic dominance could be explained by a fear of Chinese assertiveness and its claims of lost territory. At the same time, multi-national corporations and Russian state-owned enterprises may have tried to manipulate anti-Chinese sentiment for their own economic interest.

Mongolian business firms also engage in anti-Chinese sentiment as part of their rivalry with the many Chinese companies that compete for similar natural resources and animal products (e.g., wool, hide, cashmere). Mongolian business entities pressure the government and appeal to

the public to support national industries—most noticeably cashmere producers, vegetable and grain growers, and meat producers—by limiting Chinese imports of raw materials and exports of cheap products. Ole Bruun sees in this the protection of economic interests:

the most remarkable improvement in the herders' general conditions came from increasing competition in the cashmere market (induced by China), which brought vastly higher prices to the producers [herders] but threatened Ulaanbaatar's languishing cashmere industry, in which political and native business interests are strong.⁶³

Similarly, just before the New Year in 2010, the media revealed the "insidious" Chinese policy of controlling Mongolian meat markets, prompting government inspection agencies to investigate the Chinese meat business in Mongolia. Interestingly, anyone who questioned the rationality of the anti-Chinese debates was soon attacked with anti-Chinese laden jargon. Mongolian politicians, business people, and organizations often use similar anti-Chinese rhetoric. They talk as if these Chinese business interests are part of a well-orchestrated, well-funded, and long-term strategy for the economic takeover of Mongolia. Obviously, it is difficult to prove any such takeover strategy, but it impacts negatively on Mongolian herders wanting to sell their products at higher prices, and many Mongolian companies are willing to take advantage of the Chinese market.

At the individual level, anti-Chinese sentiment is usually expressed as dissatisfaction with the poor quality of Chinese products and China's allegedly hidden intention to harm the health and well-being of ordinary Mongolians. Chinese plans to poison Mongolians through food have become the most popular form of anti-Sinic expression. According to Kaplonski, numerous stories have been recorded about poisoned food supplies from China, but only one story described bad food from Russia. He noted:

It was a fairly common experience in 1993 to hear of people taking ill through Chinese food or drink (such talk seemed absent in 1997 and later). Children ended up in the hospital, or comatose, because of Chinese sugar; a man went blind from Chinese alcohol; Chinese grain was infested with insects. The stuff the Chinese were selling as salt wasn't really salt, either. The list seemed to go on and on.⁶⁴

60 Prior to 1990, Russia was almost Mongolia's only trading partner. See Morris Rossabi, *Modern Mongolia from Khans to Commissars to Capitalists* (Berkeley: University of California Press, 2005), 82-85; and Li Narangoa, "Mongolian in 2011: Resources Bring Friends and Wealth," *Asian Survey* 52, no. 1 (2012): 82-85.

61 "New Railroad Policy of Mongolia," *Government Press, UB Post*, June 24, 2009.

62 2012 Strategic Entities Foreign Investment Law of Mongolia.

63 Bruun, *Precious Steppe*, 228.

64 Christopher Kaplonski, "Prelude to Violence," *American Ethnologist* 35, no. 2 (2008): 43.

When Mongolia's trade with the Soviet Union and communist bloc countries ended in 1990, so Mongolian peddlers imported food products from China. Because of the low income of most Mongolians, and the state's inability to enforce food import standards, these small-scale traders tended to buy large quantities of low-quality products. Rumors and media coverage on low-quality Chinese food products and other goods were mostly said to be part of the traditional Chinese method of poisoning and harming the health and minds of Mongolians. Even today, it is not uncommon to hear rumors linking the death of a high-level politician with Chinese food and drink, or complaints about the low quality of Chinese machinery, consumer goods, and food in Mongolia.

In addition, most concerns expressed at the individual level are about the increasing number of Chinese business activities and the presence of Chinese nationals.⁶⁵ Since 1990, the number of permanent Chinese residents has not increased, but their presence in Mongolia has become more seasonal. There are three major groups of Chinese residents in Mongolia. The first is construction workers that have been either invited by a Mongolian company or sent by the Chinese government to work on Chinese assistance projects. The second is a group of business entrepreneurs who collect raw animal materials (hides, wool, cashmere), especially in the spring and fall. The third is that of Chinese investors who are involved in various economic projects, which predominantly consist of medium and small-sized mining companies.

According to the statistics of the Mongolian Ministry of Economic Development, Chinese companies constitute about 50 percent of foreign direct investors, whereas South Korea (18 percent) and Russia (8 percent) rank as the second and third.⁶⁶ Some anecdotal evidence also suggests that Mongolia is considered to be a safe haven away from an authoritarian and overcrowded China, or may serve as a transit point to other destinations for some Chinese and Inner Mongolian nationals. According to official Mongolian statistics, the number of Chinese travelers to Mongolia is greater than foreign tourists from other countries; however, these statistics need further examination to identify trends among Chinese travelers to Mongolia (Table 1).

Table 1. Number of Arrivals by Top Four Countries

	2000	2008	2009	2010
China	57,546	196,832	229,451	193,730
Russia	49,456	109,975	108,105	121,647
South Korea	8,039	43,396	38,273	42,231
Japan	11,392	14,939	11,401	7,527

Source: Annual Statistical Bulletins of National Statistical Office of Mongolia (www.nso.mn)

Conclusion

In comparison with the periods of institutionalized discrimination against Chinese nationals and mixed-blood Mongolians with unproven Chinese ethnic ties, the situation has improved significantly. No discriminatory state policies exist any longer and people are now able to declare their true ethnic origins. However, anti-Chinese sentiment and violent discourses still linger in daily conversations, news media, Internet comments, literature, hip-hop, and even graffiti. Mongolia's public opinion voices its opposition to the possible Sinicization that could result from letting an all-male Chinese labor force into Mongolia. It is also concerned about Chinese mining companies (though other foreign and domestic companies are also involved) causing possible environmental degradation, and the potential threat to local businesses and employment. In this paper, I have advanced four reasons for the impact of lingering anti-Chinese sentiment: memories of colonization, concern for "blood purity," the communist state's use of negative sentiment, and the economic interests of various groups. To understand the changing nature of public attitudes to foreigners and Mongolians of mixed-descent, researchers should engage in a careful study rather than making generalizations. Moreover, comparative studies of public attitudes in states that are much smaller than their neighbors might help us to capture similarities and differences as well as dynamics. Lingering anti-Chinese sentiment in Mongolia might be similar with such "anti" feelings in many of China's neighbors.

65 Chinese settlements in Mongolia began in the 1700s, when Qing emperors used Chinese nationals to provide food for their military campaign in Western Mongolia and Central Asia. Most Chinese nationals, believed to number around 100,000, fled during the Mongolian revolution in 1921. The official statistics counted 23,919 Chinese nationals in 1925 and the majority of Chinese nationals were expelled in 1929 upon Soviet instruction. In the 1950s, around 18,000 Chinese construction workers along with their families were living in Mongolia, but most of them left in 1964 and remained expelled up until the 1980s. See Tsedendamba Batbayar, "Foreign Migration Issues in Mongolia," in *Human Migration Issues in Northeast Asia*, ed. Tsuneo Akaha (Tokyo: United Nations University Press, 2006); Elizabeth E. Green, "China and Mongolia: Recurring Trends and Prospects for Change," *Asian Survey* 26, no. 12 (1986): 1337-1363.

66 Foreign Direct Investment Statistics (1999 to 2010) of the Ministry of Economic Development of Mongolia.

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STRATEGIC NODES and REGIONAL INTERACTIONS in SOUTHERN EURASIA



At the collapse of the Soviet Union, Western pundits celebrated the dramatic reshaping of regional interactions in Southern Eurasia to come, with the hope of seeing Russia lose its influence and be bypassed by growing cooperation between the states of the South Caucasus and Central Asia, as well as the arrival of new external powers. This hope has partially failed to come to fruition, as regional cooperation between the South Caucasus and Central Asia never started up, and cooperation within these regions has been hampered by several sovereignty-related and competition issues. However, a quarter of century after the disappearance of the Soviet Union, strategic nodes in Southern Eurasia have indeed deeply evolved. Some bottom-up dynamics seem to have taken shape and the massive involvement of China has been changing the long-accepted conditions in the wider region. Islamic finance has also emerged, while external actors such as Turkey, Iran, the Gulf countries and Pakistan have progressively structured their engagement with both Central Asia and South Caucasus. Another key node is centered in and around Mongolia, whose economic boom and strategic readjustments may help to shape the future of Northeast Asia.

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