

Wider Europe - Regional Security Report

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Summary in English

After the dissolution of the Soviet Union, the newly independent states faced a politically, economically and socially challenging environment. During the post-Soviet era, they have experienced economic slowdown, dissolving of the social safety net and deterioration of living standards. Many of the countries have also been torn apart by ethnic conflicts and social unrest. The post-Soviet transition with political and socio-economic changes has been difficult, and the transformation to market-oriented economy and the building of a democratic state has succeeded in variable degree, often resulting in political and economic systems that are somewhere in between.

With regard to the Western CIS countries – Belarus, Moldova and Ukraine – the different paths of political and economic development are clearly visible. Whereas Belarus has followed the Soviet-style model of centrally planned economy and authoritarian rule, Moldova and Ukraine have developed market-oriented economies and democratic systems although the transformation has been in many ways difficult. Still, all countries are suffering from unstable political situations and threatened by social unrest of some degree. Particularly in Moldova and Ukraine, the main political division is the cleavage between pro-Russia and pro-Western forces. Indeed, the countries are still caught in the struggle between Eastern and Western identities and have an ambivalent relationship with the successor of the Soviet Union, Russia.

In many cases, the countries in the Wider Europe area have faced serious difficulties in their state-building after the break-up of the USSR. The ethnic tensions that were more or less suppressed during the Soviet era have erupted and led to several **internal and international conflicts**. The states that gained their independence after the dissolution of the Soviet Union have often had a creation of a nation state as an objective. However, the drawing up of national boundaries to correspond with nationalities has proven to be difficult. As a consequence, the states have been forced to try to manage the complicated political and ethnic relations inside their borders.

The three South Caucasus countries – Armenia, Azerbaijan and Georgia – have faced difficulties in consolidating their state territorialities during the post-Soviet era. The several regional conflicts in the South Caucasus – conflicts of South Ossetia and Abkhazia in Georgia, and the dispute over Nagorno-Karabakh between Armenia and Azerbaijan – have their roots in instable territoriality and separatist tendencies.¹ The conflicts have had a negative impact on the socio-economic development of the three states. In Azerbaijan, the Nagorno-Karabakh conflict between Armenia has led to an extensive military budget on the expense of, for instance, social spending. In Georgia, the recent war on South Ossetia with Russia has worsened the economic situation and diverted attention from social and economic reforms to reconstruction. Armenian economic development, on the other hand, has suffered because of

the country's economic isolation as its borders to both Azerbaijan and Turkey are closed.

In this kind of unsecure environment, in which the countries are confronted with questions of external and domestic integrity, the state development and reform has remained incomplete. Political decisions and structures are dominated by the task of territorial consolidation, which leaves little room for state-building efforts. As a result, state-building remains incomplete and the states remain weak. The state structures – particularly judiciary and the rule of law, central political institutions, parliament and political opposition – that are necessary for a stable state are not strong enough, and the state is unable to fulfil its tasks, such as guarantee sustainable economic development, provide minimum of social welfare and generate infrastructure.²

The **internal weakness of a state's political and economic function** is a problem for Central Asian states as well. In authoritarian regimes, like most of the countries in the region, the survival of the government becomes a principal goal and they focus on consolidating inner stability and political control instead of dealing with questions that are considered not threatening the government and as such of minor importance, for example environmental or social issues. Moreover, weak states often have insufficient resources and abilities to handle that kind of soft security threats.³

Indeed, **environmental degeneration** is a serious threat for many countries of the Wider Europe area. Environmental degradation is often received as a Soviet legacy, and the poor and weak states have not succeeded in halting or reversing the contamination of the environment. Environmental problems can accelerate existing development dilemmas, for example poverty and health issues, as has been the case for instance with the drying up of the Aral Sea. Furthermore, they are a threat to the stability and security of the countries and regions as they hinder social and economic development and can trigger or accelerate both regional and internal conflicts and tensions. A good example is the water question in Central Asia which has already created tensions among the region's countries.

The countries in the Wider Europe area do not always provide a social environment that would guarantee equal opportunities to all. Factors that diminish equality of opportunity include for example **poverty, unemployment, corruption and lack of civil liberties** that are severe problems in many countries of the region. Furthermore, in many countries, government's tight control over economy limits people's economic opportunities. The groups whose access to for instance education, health care, housing and employment is often restricted include ethnic and religious minorities, women and internally displaced persons. There are also great developmental differences between urban and rural areas, and economic growth is often restricted to major cities, as is the case for instance in Kazakhstan. Indeed, the

¹ Gallina, N.: Puzzles of State Transformation: The Cases of Armenia and Georgia. *Caucasus Review of International Affairs* Vol. 4 (1) – Winter 2010, 20–21.

² Gallina 2010, 32.

³ Swanström, N.: Traditional and Non-Traditional Security Threats in Central Asia: Connecting the New and the Old. *China and Eurasia Forum Quarterly*, Volume 8, No. 2 2010, 41–44.

differences in living standards and alienation of certain groups from the society create inner tensions and can lead to severe domestic security problems.

All countries in the Wider Europe area suffer from corruption, even pervasive one. Bribes and personal connections are a central part of political life, public institutions, judiciary, police, education and business. As corruption exacerbates poverty and general dissatisfaction, it breeds social, economic and political unrest and thus can be considered as a serious threat to the stability and security of countries.

Indeed, corruption has various negative political, economic, social, and environmental consequences for the countries. It hinders the democratic development as in a corrupt environment the institutions lose their legitimacy and accountable political leadership cannot develop. Economically, it leads to depletion of national wealth, hinders the development of fair market structures and distorts competition, thereby deterring investment. It can lead to environmental degradation as funding can be allocated to environmentally devastating projects. Finally, the social effects of corruption are perhaps most devastating. It undermines people's trust in the political system, its institutions and leadership. It discourages people in social participation and creates an environment characterised by disillusionment, frustration and general apathy. When civil society is weak, the way is open for authoritarian leaders and democratically elected leaders that are misusing their power to gain personal wealth. Bribes become a norm and a vicious cycle is generated.⁴

Social and economic deprivation and corruption cause lack of future opportunities and increase people's disaffection with their state, its institutions and their leaders. This in turn creates a base for civil unrest, criminality and terrorism, and legitimises radical groups' attacks against governments. Various radical groups, religious fundamentalists and terrorist organisations can offer an alternative meaning for life, as they can provide at least some things in which the state has failed.⁵ Indeed, **radicalism, organised crime, narcotics trade and human trafficking** are severe problems and security threats in the Wider Europe area. Individual states have insufficient resources to counter those threats, even more so as they are transnational in nature and would require regional cooperation.

The security of the Wider Europe area – Western CIS, South Caucasus and Central Asia – is affected not only by military and politic issues but also by economic, societal and environmental ones. Moreover, the challenges and threats as well as their effects are often transnational in nature, including environmental threats, sufficiency of natural resources and water, population growth, poverty, migration, infectious diseases, humanitarian catastrophes, terrorism, organised crime, narcotics trade, human trafficking and regional conflicts. However, as many of the states in the area – especially in the South Caucasus and Central Asia – are weak in their state structures and

political and economic performances, they have rarely managed to counter the facing external and internal security threats in an efficient manner. In the authoritarian regimes, their leaders tend to focus mainly on staying in power and building up military defence on the expense of social and economic development of the country and the welfare of its citizens. This often generates a vicious cycle as social and economic deprivation causes disillusionment and lack of belief in the future and increases people's disaffection with their state, its institutions and leaders. This in turn promotes the emergence of civil unrest, and criminal and violent movements, and leads to an unstable and insecure political, economic and social environment.

In 2011 the security situation in the Wider Europe area is not expected to undergo significant changes. Elections are scheduled for 2011 only in Kyrgyzstan (presidential) and Kazakhstan (one-half of the senate). Regarding the Western CIS, in Belarus President Alyaksandr Lukashenka is likely to maintain his tight grip on power and continue to pressure the opposition, and the Belarusian government's relations with the West are likely to remain strained. In Ukraine, the developments since President Viktor Yanukovich came to power suggest an erosion of some degree of the country's democracy which raises concerns in the West. In Moldova, there are changes that the parliament will finally succeed in electing a president and thus end the political stalemate. Regarding the conflict of Transnistria, however, it is unlikely that a resolution to it will be reached this year.

In the South Caucasus, the dispute over Nagorno-Karabakh is likely to remain unsettled and continue to harm Armenia–Azerbaijan relations. Prospects for reintegrating the separatist regions of South Ossetia and Abkhazia to Georgia remain weak as well. As long as President Mikheil Saakashvili stays in power, the Georgia–Russia relations continue to be difficult.

In Central Asia, the countries will remain susceptible to civil unrest because social and economic deprivation. Although the ethnic violence in Kyrgyzstan has ceased, there is a threat that it can break out again and spread to neighbouring countries. The security threat posed by Islamic radical groups can heighten, especially in countries bordering Afghanistan. The water issue continues to cause confrontation between the region's countries.

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⁴ Transparency International: Frequently asked questions about corruption.

http://www.transparency.org/news_room/faq/corruption_faq.

⁵ Swanström 2010, 47–48.

Резюме на русском языке

После распада СССР новые независимые государства оказались в политически, экономически и социально сложной ситуации. В постсоветский период они испытали экономический спад, разрушение системы социальной защиты, снижение уровня жизни. Многие из этих стран разрывают межэтнические конфликты и социальные волнения. Переход на новые политические и социально-экономические рельсы оказался сложным, а переориентация на рыночную экономику и строительство демократического государства проходили с переменным успехом, зачастую приводя к созданию неких промежуточных политических и экономических систем.

Так, для западных стран СНГ – Беларуси, Молдовы и Украины – характерны различные пути политического и экономического развития. Если Беларусь взяла за основу советскую модель плановой экономики и авторитарного управления, то Молдова и Украина трансформировались в рыночно-ориентированные экономики и демократии, хотя такой процесс во многом оказался непростым. При этом всем странам присущи нестабильная политическая ситуация и некоторая угроза социальных волнений. Особенно в Молдове и Украине основной политический водораздел проходит между пророссийскими и прозападными силами. И действительно, в этих странах идет борьба восточной и западной идентичностей, имеет место двойственное отношение к правопреемнику Советского Союза – России.

После распада СССР многие страны на территории Расширенной Европы столкнулись с серьезными проблемами государственного строительства. Межэтническая напряженность, которая в советскую эпоху еще более менее сдерживалась, выплеснулась в виде **внутренних и международных конфликтов**. Государства, получившие независимость после распада СССР, как правило, стремились к созданию национального государства. Однако проведение границ по национальному признаку оказалось непростой задачей. В результате, государства вынуждены урегулировать сложные политические и этнические отношения внутри собственных границ.

Все три республики Южного Кавказа – Армения, Азербайджан и Грузия – в постсоветский период столкнулись с проблемой территориальной целостности. Ряд региональных конфликтов на Северном Кавказе – южноосетинский и абхазский конфликты в Грузии и спор вокруг Нагорного Карабаха между Арменией и Азербайджаном – порожден нестабильностью границ и сепаратистскими тенденциями.⁶ Конфликты негативно сказались на социально-экономическом развитии трех государств. В Азербайджане конфликт вокруг Нагорного Карабаха с Арменией привел к значительным военным затратам в ущерб, в частности, расходам на социальные нужды. В Грузии недавняя война с Россией в Южной Осетии усугубила экономическую ситуацию и переключила внимание от социальных и экономических реформ на проблемы восстановления. В Армении же экономика пострадала из-за экономической изоляции страны, так как границы с Азербайджаном и Турцией закрыты.

В такой нестабильной обстановке, в которой страны сталкиваются с проблемами внешней и внутренней целостности, процесс развития и реформирования государства остается незавершенным. Политическими

решениями и структурами движет задача территориальной консолидации, что ограничивает государственное строительство. В результате, такое строительство незавершенно, а государства остаются слабыми. Государственные структуры, прежде всего судебные и правоохранительные, высшие политические институты, парламент и политическая оппозиция, необходимые для создания стабильного государства, недостаточно окрепли, поэтому государство не в силах выполнять свои функции, такие как обеспечение устойчивого экономического развития, минимальной социальной защиты и развития инфраструктуры.⁷

Внутреннее слабое политическое и экономическое функционирование государства является проблемой и для стран Средней Азии. При авторитарных режимах, установленных в большинстве стран региона, выживание правительства становится главной задачей, оно сосредоточивается на укреплении внутренней стабильности и политического контроля, решая вопросы не представляющие для него угрозы и вопросы менее значимые, например, экологические и социальные. Кроме того, слабые государства часто имеют недостаточные ресурсы и возможности для решения такого рода «мягких» угроз безопасности.⁸

Деградация среды действительно является серьезной угрозой для многих стран Расширенной Европы. Экологическая деградация часто воспринимается как наследие советского прошлого, и бедным и слабым государствам не удалось остановить или повернуть вспять процесс загрязнения окружающей среды. Экологические проблемы могут ускорить выбор путей решения, например, вопросов бедности и здравоохранения, как в случае с обмелением Аральского моря. Далее, они представляют угрозу стабильности и безопасности стран и регионов, поскольку мешают социальному и экономическому развитию и могут вызвать или усилить как региональные, так и внутренние конфликты и напряженность. Яркий пример тому – проблема нехватки воды в Средней Азии, которая уже создает напряженность в странах региона.

В странах региона Расширенной Европы не всегда обеспечивается социальная среда, дающая для всех равные возможности. К факторам, подрывающим равенство возможностей, относятся, например, **бедность, безработица, коррупция и отсутствие гражданских свобод**, являющиеся серьезными проблемами во многих странах региона. Кроме того, во многих странах жесткий контроль государства над экономикой ограничивает экономические возможности людей. Группы, чей доступ, например, к образованию, здравоохранению, жилью и трудоустройству зачастую ограничен, включают в себя этнические и религиозные меньшинства, женщин и внутренне перемещенных лиц. Существуют также большие различия в развитии городских и сельских территорий, а экономический рост часто сводится к крупнейшим городам, как например в Казахстане. Различия в уровне жизни и социальное отчуждение некоторых групп создает внутреннюю напряженность и может привести к серьезным проблемам внутренней безопасности.

⁶ Gallina, N.: Puzzles of State Transformation: The Cases of Armenia and Georgia. Caucasus Review of International Affairs Vol. 4 (1) – Winter 2010, 20–21.

⁷ Gallina 2010, 32.

⁸ Swanström, N.: Traditional and Non-Traditional Security Threats in Central Asia: Connecting the New and the Old. China and Eurasia Forum Quarterly, Volume 8, No. 2 2010, 41–44.

Все страны региона Расширенной Европы страдают от коррупции, причем повсеместной. Взяточничество и личные связи занимают центральное место в политической жизни, работе госучреждений, судов и полиции, в образовании и бизнесе. Коррупция усиливает бедность и общую неудовлетворенность, обостряет экономическую и политическую напряженность, и тем самым может рассматриваться как серьезная угроза стабильности и безопасности стран.

Коррупция имеет различные негативные политические, экономические, социальные и экологические последствия. Она мешает развитию демократии, так как в коррупционной среде утрачивают легитимность государственные институты, не может развиваться ответственное политическое руководство. В экономическом плане это ведет к истощению национального богатства, препятствует формированию справедливых рыночных структур, искажает конкуренцию и тем самым отпугивает инвестиции. Она может привести к экологической деградации, так как средства могут направляться на экологически разрушительные проекты. И, наконец, самыми губительными являются социальные последствия коррупции. Она подрывает доверие людей к государству, его институтам и руководству. Она отбивает у людей желание участвовать в общественной жизни и создает атмосферу разочарования, безнадежности и общей апатии. Слабое гражданское общество открывает путь как для авторитарных, так и для демократически избранных лидеров, злоупотребляющих своей властью в целях личной наживы. Как только взятки становятся нормой, создается порочный круг.⁹

Социальная и экономическая депривация и коррупция лишают перспектив и повышают недовольство людей государством, его институтами и лидерами. Это, в свою очередь, создает предпосылки для гражданского неповиновения, преступности и терроризма, обуславливает акции радикальных группировок против властей. Различные радикальные группы, религиозные фундаменталисты и террористические организации могут предложить альтернативный смысл жизни, ибо они могут дать, по крайней мере, то, что не удалось дать государству.¹⁰ **Радикализм, организованная преступность, торговля людьми и наркотиками** являются серьезными проблемами и угрозами безопасности в регионе Расширенной Европы. Отдельные государства имеют недостаточные ресурсы для борьбы с этими угрозами, тем более, что они носят транснациональный характер и требуют регионального сотрудничества.

На безопасность региона Расширенной Европы – западных стран СНГ, Южного Кавказа и Средней Азии – влияют не только факторы военные и политические, но и экономические, социальные и экологические. Кроме того, вызовы и угрозы, равно как и их последствия часто носят транснациональный характер. К ним относятся экологические угрозы, достаточность природных ресурсов и воды, рост численности населения, бедность, миграция, инфекционные болезни, гуманитарные катастрофы, терроризм, организованная преступность, торговля наркотиками, торговля людьми и региональные конфликты. Однако поскольку многие государства региона, прежде всего на Южном Кавказе и в Средней

Азии, имеют слабые государственные структуры и низкую политическую и экономическую эффективность, им редко удавалось успешно противостоять угрозам внешней и внутренней безопасности. При авторитарных режимах их лидеры, как правило, в первую очередь стремятся удержать власть и наращивают армию в ущерб социальному и экономическому развитию страны и благосостоянию ее граждан. Это нередко порождает порочный круг, ибо социальная и экономическая депривация вызывает разочарование и утрату веры в будущее, повышает недовольство людей государством, его институтами и лидерами. Это, в свою очередь, способствует возникновению народных волнений, незаконных и экстремистских движений, и ведет к созданию нестабильной и небезопасной политической, экономической и социальной среды.

В 2011 году существенного изменения ситуации с безопасностью в регионе Расширенной Европы не ожидается. В 2011 году выборы планируется провести только в Кыргызстане (президентские) и Казахстане (половины сената). Что касается западных стран СНГ, то в Беларуси, по-видимому, президент Александр Лукашенко продолжит прочно удерживать власть и оказывать давление на оппозицию при сохранении напряженных отношений Минска с Западом. В Украине после прихода к власти президента Виктора Януковича наметилась тенденция к некоторой эрозии демократии, что вызывает обеспокоенность на Западе. В Молдове же парламенту наконец-то удастся избрать президента и выйти из политического тупика. В то же время разрешение приднестровского конфликта не предвидится.

На Южном Кавказе спор вокруг Нагорного Карабаха по-видимому останется неурегулированным и будет наносить ущерб армяно-азербайджанским отношениям. Перспективы реинтеграции сепаратистских Южной Осетии и Абхазии с Грузией также остаются весьма слабыми. До тех пор, пока президент Михаил Саакашвили будет у власти, грузино-российские отношения останутся сложными.

В странах Средней Азии сохранится угроза народных волнений в связи с социальной и экономической депривацией. Несмотря на прекращение межэтнических столкновений в Кыргызстане существует угроза их повторения и распространения на соседние страны. Угроза безопасности со стороны исламских радикальных группировок может возрасти, особенно в странах, граничащих с Афганистаном. Проблема нехватки воды продолжит оставаться источником конфронтации между странами региона.

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⁹ Transparency International: Frequently asked questions about corruption.
http://www.transparency.org/news_room/faq/corruption_faq.

¹⁰ Swanström 2010, 47–48.

Western CIS

Recent political developments

Presidential election in Belarus cause social unrest – Belarus may face an isolation from the West

Since the presidential election on 19 December 2010, the Belarusian government has continued its policy of repression against the opposition and the independent media.¹¹ The election, generally condemned not free and fair, resulted in the incumbent president Alyaksandr Lukashenka's win with some 80 % of the vote¹². The election was followed by violent protests in Minsk, where thousands of demonstrators demanded president Lukashenka's dismissal. Hundreds of people were detained, including many foreign journalists and almost all opposition presidential candidates, of which several were also beaten.

The recent events have been a serious blow to Belarus' rapprochement with Europe. The Western leaders have condemned the violent crackdown of protesters and the EU has imposed travel and financial sanctions on Lukashenka and other top-ranking Belarusian officials. Moreover, increasing support from the EU is to be directed to Belarusian civil society. The US has also strengthened its existing sanctions against Belarus and expanded financial assistance to the country's civil society.¹³

As Belarus is growing apart from the EU, its relations with Russia remain complicated. Belarus has been blaming foreign powers, mainly Russia, for its recent unrest and attempts to bring about political destabilisation.¹⁴ On the other hand, some signs of rapprochement have been in evidence. Russia and Belarus recently signed a new energy deal and Belarus ratified an agreement to join a free-trade zone with Russia and Kazakhstan.¹⁵ Russian leadership also refrained from criticising Belarusian election and the following violence, calling them as the country's internal matters.¹⁶

Parliamentary election in Moldova – no breakthrough in the political-constitutional impasse

The Moldovan political field is deeply divided into pro-Russian (Communist Party of the Republic of Moldova PCRM) and pro-European (Alliance for European Integration AEI) blocks. Political polarisation has been characterising for Moldova since April 2009 parliamentary election. The then opposition parties were accusing the ruling Communist Party of the

Republic of Moldova of voting fraud, and there were violent protest following the election result which were replied hard-handed by the police. The relations between the two ruling groups, the PCRM and the AEI have remained very poor since. In addition, there have been cleavages inside the AEI.¹⁷

The November 28th 2010 parliamentary election was the third parliamentary election in less than two years. In the election the PCRM received 39 % of the votes and the AEI parties 52 % – meaning no significant changes in the political context. The results did not directly lead to a breakthrough in the political-constitutional stalemate because neither of the ruling groups gained the 61 seats in parliament needed to elect the country's president. According to the state's constitution, another parliamentary election has to be held if the parliament is unable to elect a president.¹⁸

On December 30th 2010, the parties of the AEI – the Liberal Democratic Party (PLD), the Democratic Party (PD) and the Liberal Party (PL) – decided to renew their coalition. To avoid early elections, the coalition now has to look for a compromise with the PCRM. However, reaching a compromise is difficult because it cannot lead to the AEI giving up its pro-European agenda. On the other hand, the PCRM is probably interested in avoiding another parliamentary election because the previous ones have lead to reduction of its seats in parliament. Therefore there might be some changes for a solution of the crisis.¹⁹

Massive demonstrations in Ukraine

On the Ukraine's Unity Day on 22 January 2011 there were large protests in Kiev. In addition to nationalist demonstrators, many were protesting against the current government and its policies, supporting the former Prime Minister Yulia Tymoshenko. Tymoshenko was appealing on several thousand opposition protesters and called on the divided opposition to unite.²⁰

A draft tax code considered by the Ukrainian parliament also triggered massive political protests in Ukraine in November 2010. Tens of thousands protesters, mainly small entrepreneurs, the position of which the new tax law would have particularly eroded, gathered to streets in several Ukrainian cities. The protests were unique for Ukrainian public life because they were not organised by any political party. As a result, the Ukrainian President Viktor Yanukovich vetoed the unpopular tax reform.²¹

¹¹ Eastweek 12.1.2011: Belarus: the regime continues its repression and is hunting the 'guilty parties'.

¹² Belarus.by 24.12.2010: Lukashenko wins Belarus president election, final vote count says.

¹³ Radio Free Europe/Radio Liberty 31.1.2011: EU, U.S. Coordinate New Round Of Sanctions Against Belarus.

¹⁴ Eastweek 12.1.2011: Belarus: the regime continues its repression and is hunting the 'guilty parties'.

¹⁵ Eastweek 15.12.2010: Common Economic Space: another step towards integration focused on Russia.

¹⁶ Eastweek 29.12.2010: Belarus: the policy of repression continues.

¹⁷ EIU, Moldova Country Report December 2010; Eastweek 1.12.2010: Elections in Moldova: no decisive breakthrough.

¹⁸ Eastweek 1.12.2010: Elections in Moldova: no decisive breakthrough.

¹⁹ Eastweek 12.1.2011: Renewal of the pro-European ruling coalition in Moldova.

²⁰ Euronews 23.1.2011: Ukraine's Unity Day brings calls for opposition to unite.

²¹ BBC News 30.11.2010: Ukraine leader Viktor Yanukovich vetoes unpopular tax.

Western CIS

Special theme – socio-economic development

Corruption a serious problem in all countries – undermines equality of opportunity

According to the Transparency International's Corruption Perceptions Index 2010, Moldova ranked as the 105th, Belarus as the 127th and Ukraine as the 134th among 178 countries. The ranking of Moldova has deteriorated from the 89th in 2009 and its CPI score from 3.3 to 2.9. On the other hand, the rankings of Belarus and Ukraine have improved compared to 2009; the former's from the 139th place and the latter's from the 146th place. The CPI score of Belarus has improved by a tenth from 2.4 to 2.5 and Ukraine's from 2.2 to 2.4.²² Still, corruption remains pervasive in all three countries.

In Moldova, the government has been trying to implement anti-corruption measures but yet with no significant outcome, and the lack of transparency remains a serious problem. Corruption is identified as one of the biggest problems facing Moldovan citizens.²³ According to the Transparency International's Global Corruption Barometer 2010, corruption in Moldova is most pervasive among police, judiciary, public officials, political parties, education, parliament and business.²⁴

Belarus's economy is characterised by state control and involvement, which together with the lack of transparency and accountability in government feeds corruption.²⁵ According to the Transparency International's Global Corruption Barometer 2010, corruption in Belarus is most pervasive among public officials, police, judiciary, education, parliament, political parties and business.²⁶

In Ukraine, corruption is widespread in all levels of society and government, and all spheres of economic activity.²⁷ Political corruption is a major problem and hinders the country's democratic development.²⁸ Despite several anti-corruption measures taken, there has been little progress in rooting out corruption from the society.²⁹ As the institutions, that are most seriously affected by corruption in Ukraine, are perceived judiciary, police, parliament, public officials, education and political parties.³⁰

Corruption seriously undermines equality of opportunity in all three Western CIS countries. The bribes can be a significant strain to poorer families and they restrict the opportunities of them for example to education and thus to social rise. Thus corruption

exacerbates poverty. It is also a serious threat to the equality of citizens.

Increase in living standards in Belarus due to the improvements in social policy and incomes

During the recent years, Belarus has succeeded in reducing poverty significantly and now has one of the lowest poverty rates in transition countries. However, the growth in social subsidies and wages has resulted in the widening of budget deficit, from 0.7 % in 2009 to 3.5 % in 2010 according to the EIU estimates.³¹

The Belarusian economy is characterised by statist economic policy, dependence on heavy industries and extensive social subsidies. The management of the economy has been inefficient and it is dependent on Russian energy subsidies and foreign loans.³² Loose economic policy before the presidential elections, to which President Lukashenko resorted to gain popular support, has led to a significant widening of the current-account deficit to estimated 14 % of GDP in 2010.³³

As the economy of Belarus is not on a sustainable path in the longer term, Russian energy subsidies are decreasing and Russian gas prices are likely to rise in the future, Lukashenko may face serious difficulties in maintaining a stable economic situation in the country. As Lukashenko's support among Belarusians has been largely based on the improved living conditions of the citizens, this can further erode his support among Belarusian population.

Falls in remittances can threaten Moldova's economy

Moldova's economy has been largely driven by remittances. Moldova has the fourth highest proportion of remittances to GDP in the world, 23 %.³⁴ According to the data of National Bureau of Statistics of the Republic of Moldova, 294 900 Moldovans worked or looked for work abroad in 2009, compared to 309 700 in 2008 and 335 600 in 2007.³⁵ However, according to IOM Mission to Moldova, even 600 000 Moldovans reside outside the country. Low salaries, unemployment and poverty have been the main reasons for the flow of migrant workers from Moldova to other countries, mainly Russia.³⁶

The data of the National Bureau of Statistics show that the majority of migrant workers, about two

²² Transparency International: Corruption Perceptions Index (CPI) 2010 and 2009.

²³ Freedom House: Nations in Transit 2009.

²⁴ Transparency International: Global Corruption Barometer 2010.

²⁵ The Heritage Foundation: 2010 Index of Economic Freedom; Freedom House: Freedom in the World 2010 Edition.

²⁶ Transparency International: Global Corruption Barometer 2010.

²⁷ The Heritage Foundation: 2010 Index of Economic Freedom.

²⁸ Political corruption in Ukraine: actors, manifestations, problems of countering. National Security & Defence No 7 (111) 2009. Razumkov Centre 2009.

²⁹ Freedom House: Nations in Transit 2009.

³⁰ Transparency International: Global Corruption Barometer 2010.

³¹ EIU, Belarus Country Report November 2010.

³² EIU ViewsWire 20.12.2010.

³³ EIU, Belarus Country Report November 2010.

³⁴ World Bank 2010: Migration and Remittances Factbook 2011.

³⁵ National Bureau of Statistics of the Republic of Moldova, Labour Force Survey.

³⁶ IOM Mission to Moldova 2009: FAQ. [Http://www.iom.md/index.php/en/faq](http://www.iom.md/index.php/en/faq).

thirds, are from rural areas. Many are also young.³⁷ Therefore falling remittances and returning migrants can result in growth in rural poverty and youth unemployment in Moldova. The transition underway in agriculture can further increase rural poverty.³⁸ This could further increase the differences between living standards in urban and rural areas.

Human trafficking a serious problem in all Western CIS countries

Belarus, Moldova and Ukraine are all source, destination and transit countries for human trafficking. Girls and women are subjected to forced prostitution and men, women and children for forced labour.³⁹ The high rate of labour migration affects the prevalence of human trafficking. However, it is not the only explanatory factor because Belarus and Ukraine have relatively low labour migration rates. Weak institutions to fight corruption and criminality in these countries are also likely to increase human trafficking.⁴⁰ Poverty and lack of economic opportunities drive people to search for a better income abroad but instead they end up in forced labour or prostitution.

The conflict of Transnistria remains unresolved – difficult socio-economic situation in the region

The conflict of Transnistria remains unresolved despite some negotiations between the parties involved, and it is unlikely that a political settlement on the breakaway region's status will be achieved any soon.⁴¹ Transnistria is not recognised by any country but has remained de-facto independent for 20 years. It has also aspired to form an alliance with Russia but received little response although Russia is the region's main supporter. The presence of Russian troops, over 1000 peacekeepers, in Transnistria irritates Moldova–Russia relations and hinders solving the problem on Transnistria's status.⁴² The political deadlock in Moldova has further complicated the settlement of the conflict.

The socio-economic situation in the region is difficult. The territory is economically isolated and its economy relies largely on smuggling and Russia's economic support. Corruption and organised crime are widespread and the political rights and civil liberties are restricted. Transnistria is also a significant source and transit point for human trafficking.⁴³

Erosion of democracy in Ukraine?

Since President Yanukovich came to power in Ukraine, concerns have been raised about the state of democracy in the country. In the autumn of 2010, the constitutional court of Ukraine ruled that the reform of 2004, which curbed presidential powers in Ukraine, had been unconstitutional. As a consequence, the key presidential powers that were lost to parliament in 2004 were now returned to President Yanukovich.⁴⁴

Viktor Yanukovich has started a broad anti-corruption campaign. However, his opponents claim that investigations and persecutions are driven by political motives. Indeed, majority of the targets are Yanukovich's political opponents, having ties with his main rival, former Prime Minister Yulia Tymoshenko who has also been charged with abuse of office. The EU and the US have both expressed their concern about political persecution.⁴⁵ Furthermore, in January 2011 the Czech Republic granted a political asylum to a former Ukrainian Economy Minister Bohdan Danylyshyn who is wanted at Ukraine on charges of abusing his office.⁴⁶

In addition, erosion of media freedom and safety of journalists have worried the EU and the US.⁴⁷ There have been several cases of violence against journalists, and assailants have often remained unidentified or have been discharged.⁴⁸

Although the concentration of power to President Viktor Yanukovich and his Party of Regions has improved political stability in Ukraine, there are many questions that could launch political turmoil again. President Yanukovich's attempts to consolidate power arise some concern over the democratic development of Ukraine. The EU has recently warned Ukraine not to use criminal law for political purposes. Furthermore, Yanukovich's policy of rapprochement with Russia, although currently slowed down, can create division lines inside the country and between political parties.⁴⁹

³⁷ National Bureau of Statistics of the Republic of Moldova, Labour Force Survey.

³⁸ Maddock, N. and Ramguttee, L.: Responding to falling remittances and returning migrants. Development and Transition 13, July 2009.

³⁹ U.S. Department of State: Trafficking in Persons Report 2010, 79, 236, 332.

⁴⁰ GfK Ukraine 2006: Human trafficking survey: Belarus, Bulgaria, Moldova, Romania, and Ukraine, 4.

⁴¹ EIU, Moldova Country Report December 2010.

⁴² The Moscow Times 1.9.2010: Transdnestr Seeks To Join Russia; The Moscow Times 3.9.2010: A Defiant Transdnestr Turns 20.

⁴³ Freedom House: Freedom in the World 2010 Edition.

⁴⁴ BBC News 1.10.2010: Ukraine court boosts powers of President Yanukovich.

⁴⁵ Byrne, P.: Anti-corruption drive or political vendettas? Nation can take its pick. The Kyiv Post 4.2.2011.

⁴⁶ Radio Free Europe/Radio Liberty 14.1.2011: Czech Authorities Grant Political Asylum To Former Ukrainian Minister.

⁴⁷ EurActiv 21.9.2010: EU concerned at disappearance of Ukrainian journalist..

⁴⁸ Reporters without Borders 7.2.2011: Access to information law promulgated but attacks on journalists continue.

⁴⁹ EIU, Business Eastern Europe 20.9.2010; The Moscow Times 12.1.2011: EU Warns Ukraine.

South Caucasus

Recent political developments

Parliamentary election in Azerbaijan – no democratisation ahead

The parliamentary election in Azerbaijan on November 7th 2010 ended to a landslide victory of the President Ilham Aliyev's New Azerbaijan Party (NAP), without opposition gaining any seats in the parliament. According to monitors of the OSCE, the elections showed that the country has not progressed towards a democratic system. They also demonstrated the weakness of the Azerbaijani political opposition, which is further reinforced by their limited access to campaigning resources.⁵⁰ There is no freedom of opinion or media in Azerbaijan and public and political life are dominated by one party, the NAP. Aliyev controls all the country's political structures and as the limit on the number of presidential terms was removed after a referendum in 2009, he will likely win a third term in the next presidential election in 2013 and remain in power over the next years.⁵¹

Armenia-Azerbaijan relations remain poor due to the Nagorno-Karabakh conflict

There has been little progress in the negotiations between Armenia and Azerbaijan over the status of Nagorno-Karabakh. The full-scale war has not broken out again after the cease-fire of 1994 but neither have any settlement to the conflict been reached.

The most recent round of negotiations took place in OSCE summit in Astana in December 2010, where a declaration calling for continuation of the talks was adopted. However, both the Armenian and Azerbaijani leaders repeated their mutually exclusive positions on the status of Nagorno-Karabakh, the former claiming that the region has no future within Azerbaijan and the latter saying that the region is a historic part of Azerbaijan. As the positions of the parties remain far apart, a possibility for a settlement to the conflict seems distant.⁵² Moreover, violations of the ceasefire have been increasing and might indicate unfreezing the conflict. One of the most serious incidents occurred in June 2010, when the fighting between Armenians and Azerbaijanis lasted for several days.⁵³

The Nagorno-Karabakh conflict has caused an arms race between Azerbaijan and Armenia, as particularly Azerbaijan is constantly extending its military spending. Both have also aimed at enhancing military cooperation with their closest allies. In August 2010 Armenian and Russian presidents signed an accord that extends Russia's lease on the Gyumri military base in north-western Armenia from 2020 to 2044. It extends the Russian mission there to be responsible also for Armenian security, together with Armenian armed forces and allows Russia to supply

Armenia with modern weapons and other equipment. In Armenia the accord is seen as a security guarantee in the event of a conflict with Azerbaijan.⁵⁴ At the same time there were rumours that Turkey would set up a military base in Azerbaijan.⁵⁵

Turkey-Armenia rapprochement stalled

In 2009 there were some signs of an improvement in the Turkish-Armenian relations, as the governments of Armenia and Turkey signed two protocols to establish diplomatic relations and reopen their shared border, which was closed by Turkey in 1993 in support of Azerbaijan in the Nagorno-Karabakh war. However, the rapprochement has later been stalled because the ratification process of the protocols has not progressed. First, Turkey set the progress in the settlement of the Nagorno-Karabakh conflict as a condition for its ratification. Moreover, in August 2010 Armenian President Sargsyan suspended the ratification pleading to the unreasonable delay of the ratification process by the Turkish side.⁵⁶

The rapprochement of Turkey and Armenia has worried Azerbaijan, a long-term ally of Turkey and led it to increase its energy cooperation with Russia. Azerbaijan began selling gas to Russia in 2010, and in September 2010 the countries agreed to increase the imports of Azeri natural gas to Russia in 2011–2012.⁵⁷ However, because of the current stall in Turkish-Armenian rapprochement, the relations between Azerbaijan and Turkey have improved again. In August 2010 their leaders signed an agreement on strategic partnership and mutual assistance and have aimed at reinforcing their energy relations and infrastructure links.⁵⁸

Regional conflicts in Georgia

Tensions between Georgia and its breakaway regions South Ossetia and Abkhazia remain high. Although Georgia claims sovereignty over the separatist regions, the prospects of their reintegration to Georgia are extremely weak and Russia has been further strengthening its influence in the regions.⁵⁹ As for Georgia the question about the regions is a matter of national sovereignty, territorial integrity and policy independence, for Russia it relates to preserving its traditional spheres of influence.⁶⁰

⁵⁰ OSCE 2011: Republic of Azerbaijan Parliamentary Elections 7 November 2010; EIU, Azerbaijan Country Report January 2011.

⁵¹ Freedom House: Freedom in the World 2010 Edition; OSCE 2011.

⁵² Khachatrian, H.: Declaration adopted at Astana Summit calls for continuing talks on Nagorno-Karabakh. CACI Analyst 8.12.2010.

⁵³ EIU, Business Eastern Europe 30.8.2010.

⁵⁴ EIU, Business Eastern Europe 30.8.2010.

⁵⁵ Daily Review of Russian Press 20.8.2010.

⁵⁶ Khachatrian, H.: Resumed deadlock in the South Caucasus at the anniversary of the Karabakh cease-fire. CACI Analyst 13.5.2010.

⁵⁷ RIA Novosti 3.9.2010: Russian, Azeri presidents talk energy and borders.

⁵⁸ Friedman, G.: The Caucasus Cauldron. Geopolitical Weekly 7.7.2010, Stratfor; News.Az 17.8.2010: Azerbaijan, Turkey sign partnership agreement.

⁵⁹ EIU, Georgia Country Report December 2010.

⁶⁰ Sadri, H. and Burns, N.: The Georgia Crisis: A New Cold War on the Horizon? Caucasian Review of International Affairs Vol 4 (2) - Spring 2010.

South Caucasus

Special theme – socio-economic development

Armenia was severely hit by the economic crisis

Armenia was hit hard by the economic crisis – in 2009 its GDP contracted by 14.4%.⁶¹ The shrinking economic growth and decreasing domestic and foreign investment has led to increasing unemployment and income losses for the citizens and shrinking tax base for the government. Also the remittances that have a significant impact on Armenian economy declined considerably. The crisis had negative impacts on the welfare of Armenian citizens and reversed the trend of poverty reduction that had been ongoing in Armenia for a decade. The impact is severe against already high poverty and vulnerability rates in Armenia. However, Armenia has relatively efficient social protection programmes which played an important role in mitigating the poverty impact of the crisis. The poverty incidence in Armenia rose from 23.5% in 2008 to an estimated 26.5% in 2009 but without them could have reached 45.7%.⁶² However, Armenia has currently suffered from plummeting agricultural production and skyrocketing food prices which have significantly increased cost of living. In the beginning of 2011 in just a few weeks, for example the prices for potatoes have risen 150% and for eggs 200%.⁶³

Energy sector drives Azerbaijani economy – massive increase in military spending

Azerbaijan was not hit as hard by the economic downturn as other transition countries because its high energy revenues. Despite a decrease in oil prices and weaker external demand, it experienced a GDP growth of 9.3% in 2009. Energy sector is the main driver of growth in Azerbaijan but with depleting oil resources that cannot be expected to continue in the long run. Therefore the country's economy is in dire need of diversification.⁶⁴

During the recent years, Azerbaijan has been significantly increasing its military spending. In 2011, defence spending will account for about 20% of the government's total expenditures. In absolute numbers the defence spending has almost doubled compared to the previous year. The increase in military budget is thought to be designed to send a message to Armenia and international community that Azerbaijan could resort to force if a peaceful solution to the Nagorno-Karabakh conflict will not be reached.⁶⁵

Difficult economic situation in Georgia

Both the economic crisis and the August 2008 conflict had a deteriorating effect on Georgian economy, and

the GDP contracted by 3.9%. Foreign investments, the main driver of Georgian economic growth before the 2008 war, have dropped significantly. Rebuilding the damaged infrastructure and providing humanitarian aid to internally displaced persons require public funds.⁶⁶ Currently Georgia relies on foreign aid to balance its budget and to pay for infrastructure and development projects.⁶⁷ The government has been trying to maintain the spending on social welfare despite the economic slowdown to mitigate the increases in poverty and unemployment.⁶⁸

Georgia to block Russia's WTO membership?

Russia's goal to join the World Trade Organisation has been hindered by Georgian demands to have custom officers at their mutual border. Georgian government has proposed that the two countries should operate joint customs controls along their internationally recognised border, meaning the border between Russia and the two Georgian breakaway regions, Abkhazia and South Ossetia, over which Georgia currently does not exercise any control. According to Russians, the Georgian demand does not reflect the current realities in the region.⁶⁹

Russia has been hoping to finalise the talks to join the WTO during the spring and summer of 2011 so that its membership bid could be accepted during 2011.⁷⁰ The EU has already agreed to back Russia's WTO membership, and the membership is also in America's interest. However, Georgia, already a WTO-member, could wield a veto over Russia's accession bid, as all decisions in the WTO have to be made by consensus. Both Russia and Georgia may have been waiting for the Obama administration to get involved in the issue – however, Washington has declared that it does not intend to mediate between the parties at this issue.⁷¹

A model for a practical solution to the border question could be found on the Moldovan-Ukrainian border. Moldova is unable to control part of it because of the separatist region of Transnistria, and the EU Border Assistance Mission to Moldova and Ukraine assists in controlling the border. However, although Russia is the main supporter of Transnistria, it has not recognised its independence, contrary to Abkhazia and South Ossetia to which Russia has given diplomatic recognition and promised to defend

⁶¹ EIU, Armenia Country Report November 2010.

⁶² The World Bank: Armenia – The 2008–09 Global Economic Crisis, Policy Responses, and Household Coping Strategies, June 2010.

⁶³ Grigoryan, M.: Armenia: Yerevan Grapples with Runaway Food Prices. EurasiaNet 11.1.2011.

⁶⁴ Hübner, G.: As If Nothing Happened? How Azerbaijan's Economy Manages to Sail Through Stormy Weather. Caucasus Analytical Digest No. 18, 5.7.2010.

⁶⁵ Abbasov, S.: Azerbaijan: Baku Embarks on Military Spending Surge, Seeking Karabakh Peace. Eurasianet 22.10.2010.

⁶⁶ Sakevarishvili, R.: Georgia: Continued Reverberations of the Crisis. Caucasus Analytical Digest No. 18, 5.7.2010.

⁶⁷ Corso, M.: Georgia: Tbilisi Banking on More Aid from the Millennium Challenge Corporation. EurasiaNet 10.1.2011.

⁶⁸ EIU, Georgia Country Report December 2010.

⁶⁹ Lynn, J.: Georgia: Russian WTO membership requires border deal. Reuters 14.10.2010.

⁷⁰ Itar-Tass 18.1.2011: Russia hopes to finalise talks on joining the World Trade Organisation 2011.

⁷¹ Rogin, J.: Washington won't mediate between Russia and Georgia on WTO. The Cable 29.10.2010, Foreign Policy; von Reppert-Bismarck, J. and Anishchuk, A.: EU agrees to back Russia's WTO entry. Reuters 7.12.2010.

them by force.⁷² Furthermore, it seems unlikely that Russia would let the EU's border mission to operate in a region practically controlled by Russia itself.

The IDP population is the most vulnerable section of the population

Poverty, economic inequality, and poor social security and health care systems are significant problems threatening South Caucasian societies. In this respect, the internally displaced persons, IDPs, are the most vulnerable section of the population, especially in Azerbaijan and Georgia, where the conflicts have forced people to flee from their homes. In the countries with already high poverty and vulnerability rates, governments have not succeeded in guaranteeing adequate living conditions to IDPs.

In Azerbaijan, over half a million people remain internally displaced as a consequence of the Nagorno-Karabakh war, including over 200 000 children born to them since they fled their homes. IDPs often suffer from inadequate living conditions, as over 300 000 of them live in collective centres and makeshift accommodation with often limited electricity supplies and insufficient sanitation facilities. Unemployment is widespread, and the majority still depends on state benefits as their main source of income and have limited access to health care services and education.⁷³

In Georgia proper there were at least 220 000 people displaced in 2009. In addition, there were about 10 000 IDPs in South Ossetia and an unknown number in Abkhazia. By the end of 2009 over 100 000 people displaced in 2008 had returned to South Ossetia and Abkhazia. Most of the IDPs and returnees live in poor conditions, for example overcrowded collective centres and damaged houses. They are often unemployed and depend on government assistance and benefits, and have very limited access to health care services.⁷⁴

In Armenia, the Nagorno-Karabakh conflict caused an inflow of 70 000–80 000 internally displaced persons from the conflict area to be displaced to other parts of Armenia during 1991–1993. After the ceasefire of 1994, most of them returned to their original settlements, and some either settled in new places or permanently emigrated from Armenia.⁷⁵

Crime and corruption threaten South Caucasian societies

The economic and political instability in South Caucasus has created a ground for crime and corruption, which in turn threatens the stability and security of the countries and the whole region.⁷⁶

Organised crime is a particular problem in Georgia. Before the Rose Revolution in 2003, the Georgian mafia was embedded in the country's economy.⁷⁷ After the revolution, however, Mikheil Saakashvili's government launched an extensive anti-mafia campaign and succeeded in curtailing the powers of

professional criminals.⁷⁸ However, the Georgian mafia is not dead but transferred to Russia and around Europe as can be seen in several recent incidents.⁷⁹ It has also been alleged that the Georgian political opposition has been financed by the Georgian mafia.⁸⁰

Terrorism and weapons proliferation are security threats facing the South Caucasus, especially Georgia and Azerbaijan. Armenia, on the other hand, has been less affected by transnational criminal networks because of its isolation as two of its four borders are closed.⁸¹

Trafficking of narcotics through the South Caucasus region is increasing. Several smuggling routes cross the region, for example from Afghanistan via Central Asian countries and Iran to Azerbaijan, Georgia and further to Russia and Western Europe. Furthermore, drug abuse remains a serious concern in the South Caucasus countries, especially in Azerbaijan, as does the spreading of the diseases related to drug abuse by injection.⁸² Moreover, the opening of the Armenian–Turkish border could create a new transit route for drugs.⁸³

Human trafficking is one of the most tragic aspects of organised crime in the South Caucasus, particularly because majority of its victims are women and children. Poverty and the lack of economic opportunity are the main drivers for this trend, and the victims of it are lured by the promise of well-paid work abroad. Particularly Armenian women have been trafficked for sexual exploitation.⁸⁴

Corruption remains a major problem in all South Caucasian countries. Azerbaijan was ranked 134th, Armenia 123rd and Georgia 68th among the 178 countries measured by the Transparency International's Corruption Perceptions Index 2010.⁸⁵ In Azerbaijan, corruption is particularly entrenched in the energy sector, the primary national asset. In Armenia, corruption is pervasive and has even spread to politics as several corrupt oligarchs have gained seats in the parliament.⁸⁶ Of the three countries, Georgia has succeeded best in fighting corruption, especially with respect to lower- and mid-level corruption, but corruption at elite levels is still a major challenge in Georgia.⁸⁷

⁷² Lynn 2010.

⁷³ IDCM, Azerbaijan Overview, 10 December 2010.

⁷⁴ IDCM, Georgia at a glance, 31 December 2009.

⁷⁵ UNDP 2009, 40–41.

⁷⁶ Giragosian, R.: Networks of Crime and Corruption in the South Caucasus. Caucasus Analytical Digest No. 9, 17.9.2009.

⁷⁷ Slade, G.: The Georgian Mafia. Caucasus Analytical Digest No. 9, 17.9.2009.

⁷⁸ Kupatadze, A.: Georgia's Fight against Organized Crime: Success or Failure? Caucasus Analytical Digest No. 9, 17.9.2009.

⁷⁹ See e.g. BBC News 15.3.2010: Georgia mafia suspects arrested in six countries; GR Reporter 24.6.2010: Russian Gangsters Killed in Greece; The Moscow Times 20.7.2010: Reputed Georgian Mafia Boss Jailed for 10 Years.

⁸⁰ Melikishvili, A.: Is Part of the Georgian Opposition Financed by Georgian Organized Crime? Eurasia Daily Monitor Volume 7 Issue 126, 30.6.2010.

⁸¹ Giragosian 2009.

⁸² International Narcotics Control Board 2009: Report of the International Narcotics Control for 2009, 103–105.

⁸³ Giragosian 2009.

⁸⁴ Giragosian 2009.

⁸⁵ Transparency International: Corruption Perceptions Index 2010.

⁸⁶ Giragosian 2009.

⁸⁷ Freedom House: Freedom in the World 2010 Edition.

Central Asia

Recent political developments

Early presidential election proposed in Kazakhstan

The president of Kazakhstan Nursultan Nazarbayev has called for an early presidential election, to be held possibly within three months. The next presidential election was originally scheduled for 2012. Nazarbayev's call follows the Kazakh Constitutional Court ruling – supported by the president – opposing a referendum that would have extended Nazarbayev's term to 2020 if passed and, in practice, made 70-year-old Nazarbayev a president-for-life. The parliament had already voted in favour for holding a referendum. However, the proposed referendum received criticism in the West and was called for example by the US as a setback of democracy. Nazarbayev's decision to dismiss the calls for a referendum and hold early election instead has been seen as an attempt to fight the anti-democratic allegations against his government. However, as the incumbent president is expected to win the elections anyway, his move can be mainly considered as political theatre.⁸⁸ The president already holds extensive powers in Kazakhstan, a country of which has never held elections that would have met international democratic standards.⁸⁹

Islamic radicalism and ethnic confrontations cause instability

Both the ethnically motivated violence and Islamic radicalism pose a security threat to the Central Asian countries. After the outbreak of ethnic violence between ethnic Kyrgyz and Uzbeks in Kyrgyzstan in the summer of 2010 the country remains unstable. The relations between the two ethnic groups remain poor, and can further deteriorate because the country's Uzbek minority has been officially blamed for provoking an ethnic conflict. It makes the normalisation of the situation in Kyrgyzstan difficult and increases the potential for further unrest.⁹⁰ Furthermore, there is a risk that the instability in Kyrgyzstan could spread to its neighbouring countries Uzbekistan and Tajikistan.⁹¹

Recent attacks in Central Asian countries have raised concerns on the spreading of Islamic radicalism from Afghanistan and Pakistan. The situation in the Fergana Valley has been particularly of concern. The valley, which includes parts of Kyrgyzstan, Uzbekistan and Tajikistan, has for long been considered to be among the region's most unstable areas because of its poverty, militancy and loose borders.⁹² Moreover, the vicinity of Afghanistan causes instability to all Central Asian countries.⁹³

⁸⁸ Lillis, J.: Kazakhstan: Nazarbayev Set to Become 'President-for-life'? EurasiaNet 14.1.2011; EurasiaNet 3.2.2011: Kazakhstan's President Calls for an Early Election.

⁸⁹ BBC News 14.1.2011: Kazakhstan backs referendum to extend president's term.

⁹⁰ Eastweek 19.1.2010: Kyrgyzstan blames Uzbeks for provoking ethnic conflict.

⁹¹ EIU, Kyrgyz Republic Country Report November 2010.

⁹² Levy, C.: Central Asia Sounds Alarm on Islamic Radicalism. The New York Times 17.8.2009.

⁹³ Swanström 2010, 45.

The discussion about the possible revival of the Islamic Movement of Uzbekistan (IMU) – the former key militant group in the region, has intensified recently in Central Asia, particularly after the massive prison break in Tajikistan in August 2010 as several escapees were allegedly members of IMU.⁹⁴ There has also been a rash of other violent incidents in Tajikistan, of which Islamic radicals have been blamed.⁹⁵ Also in Kyrgyzstan, an Islamic radical group has been accused on recent violent attacks on a synagogue and on a sports arena in autumn 2010, as well as on the murder of four law enforcement officers in January 2011.⁹⁶ However, some experts and opposition politicians in Central Asia claim the risk of spreading of Islamic radicalism to be overstated and used to political purposes by the region's governments – to justify restrictions on political freedoms and to drum up support.⁹⁷

No agreement on the status of the Caspian Sea

The legal status of the Caspian Sea has been under discussion since the dissolution of the Soviet Union. The five littoral states, Azerbaijan, Kazakhstan, Iran, Russia and Turkmenistan have been trying to reach an agreement on the Caspian's status, however yet without significant success. After the most recent summit with the five leaders, the question over the legal status is still pending.⁹⁸ However, Russia is working on actively to resolve the issue.⁹⁹ Next meeting for the working group over the status of the Caspian Sea is scheduled for late January 2011.¹⁰⁰

The issue on the Caspian's legal status is controversial because the sea is rich in oil and gas resources. If the Caspian will be declared as a sea, it has to be divided into national sectors among the littoral states, and each state will own the oil and gas resources in its sector. If it will be declared as a lake, the resources and resulting revenues have to be divided equally among the five countries.¹⁰¹ In addition, there have been plans about a construction of an undersea pipeline and especially Azerbaijan and Turkmenistan are keen on reaching an agreement on the Caspian's status so that they could proceed in building a Trans-Caspian gas pipeline.¹⁰²

⁹⁴ Chausovsky, E.: Tajikistan Security Sweeps and the Possible Return of the IMU. Security Weekly 11.11.2010, Stratfor.

⁹⁵ EurasiaNet 20.9.2010: Tajikistan: Militant Ambush Puts Spotlight on Security Situation.

⁹⁶ Tynan, D.: Kyrgyzstan: Security Officials Blame Islamic Radical Group for Recent Violence. EurasiaNet 13.1.2011.

⁹⁷ Levy 2009.

⁹⁸ EurasiaNet 19.11.2010: Caspian Summit Fails To Clarify Status, Resource Issues.

⁹⁹ Today.Az 13.1.2011: Russia to accelerate process of determining Caspian Sea status.

¹⁰⁰ Trend 14.1.2011: Iranian President's Envoy for Caspian Sea to visit Moscow.

¹⁰¹ EurasiaNet 19.11.2010: Caspian Summit Fails To Clarify Status, Resource Issues.

¹⁰² EurasiaNet 16.7.2009: Turkmenistan: Ashgabat Discusses Caspian Sea Status with Azerbaijan.

Central Asia

Special theme – socio-economic development

Difficult socio-economic situation in the region

All Central Asian states suffer from severe social and economic problems, such as lack of economic growth, widespread poverty, unemployment, weak social welfare, polarization of society and corruption, though of varying degree.¹⁰³ Kazakhstan has enjoyed the strongest economic performance, but its human development indicators lag behind its economic development. The economic growth is limited to major cities Almaty and Astana, whereas poverty is concentrated in rural areas. The economic crisis has increased poverty, income inequality and unemployment, whereas safety nets are weak. Moreover, the economy of Kazakhstan is heavily dependent on energy sector and thus highly vulnerable to commodity price fluctuations, and therefore in a need of diversification.¹⁰⁴

In Uzbekistan, as well, living standards lag behind its 15-year-long economic growth. Poverty still remains widespread and although social spending is high, safety nets are of poor quality.¹⁰⁵ Tajikistan remains the poorest of the former Soviet republics and faces a wide array of problems, including widespread poverty, unemployment, narcotics trafficking, Islamic radicalism and pervasive corruption. Energy shortages caused by harsh winters and drought, and rises in food prices have further increased the burden on Tajik households.¹⁰⁶ Turkmenistan has experienced a period of strong economic growth based on its large hydrocarbon resources. However, poverty is still widespread and living standards and social security are inadequate.¹⁰⁷

Social and political instability in Kyrgyzstan has had a deteriorating effect on the country's economic situation.¹⁰⁸ As in all Central Asian countries, poverty remains a severe problem in Kyrgyzstan. Kyrgyzstan has received international assistance to finance its essential public services, social welfare and reconstruction.¹⁰⁹

Migrant workers in Russia and Kazakhstan suffer from economic crisis

Central Asian economies are heavily influenced by migrant workers. In 2009, the share of remittances in Tajikistan's GDP was 35 %, which made it the top remittance-receiving country in the world in terms of the share of remittances in GDP. Kyrgyzstan ranked 12th, with remittances comprising 15 % of its GDP.¹¹⁰

Uzbeks, on the other hand, make up the largest emigrant population in absolute numbers in Central Asia – over 2 million Uzbek immigrants reside in other countries. Russia and Kazakhstan are the main receivers of Central Asian migrant workers but also smaller economies of Tajikistan and Kyrgyzstan host significant number of migrants.¹¹¹

The economic crisis resulted in sharp decline in remittance flows to Central Asian countries in 2009. For example, remittances to Tajikistan and Kyrgyzstan declined by almost a third because of the collapse of oil prices and deep recession in Russia. While some Central Asian migrants have returned to their homes, the economic recovery in Russia in 2010 has encouraged new inflows of temporary workers and the number of them has mainly returned to the pre-crisis level.¹¹²

Not only does the economic crisis complicate the situation of labour migrants but the recent political developments in Russia have made the conditions for them increasingly difficult. The rise in nationalist-inspired violence, particularly against people of Caucasian and Central Asian origin, and nationalist riots reflect the hardening of the public sentiment against non-Russians.¹¹³ The recent tightening of immigration procedures, particularly targeted against unskilled labour migration, could have serious effects on Central Asian migrant workers and thus even on the economies of their countries of origin.¹¹⁴

Water shortage can cause humanitarian, economic and political crisis

Water-related issues, such as aridity, deteriorating water quality and inefficient water use, are among the central development challenges Central Asia is facing, and climate change can further complicate the situation.¹¹⁵ Furthermore, allocation and use of water resources is increasingly creating conflicts in Central Asia. As a region, Central Asia is rich in water resources but they are unevenly distributed as most of the water is concentrated in the mountainous areas of Kyrgyzstan and Tajikistan. The two large rivers, Amu Darya and Syr Darya are trans-boundary, flowing from Tajikistan and Kyrgyzstan downstream to other Central Asian states and terminating in the Aral Sea. During the Soviet times, the use of water resources was planned according to the development of the whole Central Asian region. However, since the dissolution of the Soviet Union, water resources

¹⁰³ Swanström 2010, 45–48.

¹⁰⁴ World Bank: Kazakhstan Country Brief, April 2010.

¹⁰⁵ World Bank: Uzbekistan Country Brief, September 2010.

¹⁰⁶ Daly, J.: Tajikistan, Preparing for a Long Winter. RES Security Watch 21.12.2010.

¹⁰⁷ Nichol, J.: Turkmenistan: Recent Developments and U.S. Interests. Congressional Research Service 2010, 2; World Bank: Turkmenistan Country Brief, March 2010.

¹⁰⁸ World Bank: Kyrgyz Republic Country Brief, September 2010.

¹⁰⁹ EIU, Kyrgyz Republic Country Report November 2010.

¹¹⁰ World Bank 2010: Migration and Remittances Factbook 2011.

¹¹¹ Marat, E.: Labor Migration in Central Asia: Implications of the Global Economic Crisis. Silk Road Paper, May 2009, 9.

¹¹² World Bank 2010: Migration and Development Brief.

¹¹³ Charnay, M.: Russia: Kremlin Struggling to Keep Lid on Pandora's Box of Nationalism. EurasiaNet 20.12. 2010.

¹¹⁴ Lemon, E.: Russia: Central Asian Labor Migrants Facing Uncertain Year. EurasiaNet 5.1 2011.

¹¹⁵ Perelet, R.: Climate Change in Central Asia. Development and transition 10, July 2008.

management has turned into a matter of regional dispute.¹¹⁶

The use of water between the Central Asian countries varies. The upstream nations Kyrgyzstan and Tajikistan are interested in using water resources to develop hydroelectric projects as they don't have hydrocarbon resources and have been suffering from severe energy shortages during wintertime. Meanwhile, the arid but energy-rich downstream countries of Kazakhstan, Turkmenistan and Uzbekistan need water for irrigation and are concerned about the upstream countries plans to dam rivers for hydroelectric power generation.¹¹⁷

Water and energy are important instruments in the Central Asian geopolitical game. Whereas Kyrgyzstan and Tajikistan rely largely on the downstream nations' energy supplies, the downstream countries rely on the water flowing through Kyrgyzstan's and Tajikistan's territory. However, the countries have not succeeded in compensating for each other's missing resources but instead they have been caught up in a series of water- and energy-related conflicts. For example, as the Tajik hydropower projects proceed, Uzbekistan has answered by imposing a railway blockade on Tajikistan, as well as by closing an important border checkpoint and isolating the country for winter, and by threatening to turn off gas supplies because of unpaid debt.¹¹⁸

Indeed, as water is essential for the economic development of all Central Asian countries, there is a high potential for water-related conflicts between the five countries. Climate change can further exacerbate tensions in the future as the region's rivers depend on glaciers and snow high up on the mountains that are threatened by the global warming. As the population in the region grows, there will be even less water available per person. Moreover, if the situation in Afghanistan, also an upstream country in the region, stabilises, it will start to use more water and there will be even less available for the downstream nations. It is possible that lack of water can further increase the dissatisfaction among Central Asian people, already oppressed by poverty and authoritarian governments.

Environmental problems accelerate existing developmental dilemmas

Central Asia suffers from ecological disasters and the legacy of the Soviet era. For example, the region was a nuclear testing ground for the Soviet Union since 1940s, which has impacted both ecosystems and human health.¹¹⁹

The water dispute is closely connected to the catastrophic state of the Aral Sea. During the Soviet era, water from the rivers of Amu Darya and Syr Darya

that fed the Aral Sea was diverted to irrigate cotton fields. As a result, in the 1960s the Aral Sea started to shrink and its salinity to increase. The fishing industry, that formerly employed 60 000 people, collapsed as the ecosystem of the Aral Sea and the river deltas feeding into it had been nearly destroyed. Currently, Aral Sea's surface area has shrunk by three quarters and its volume by almost 85 %.¹²⁰ It has split into two parts, the northern segment in Kazakhstan and the southern mostly in Uzbekistan.¹²¹

Environmental problems are closely connected to social and economic development, and can trigger or accelerate both regional and sub-state crises and tensions.¹²² For, example, the Aral Basin is heavily polluted and its toxic dust is carried away by the wind to the surrounding area. People living in the area are suffering from a lack of fresh water, malnutrition and other health problems, and they struggle to make their living as crops are destroyed by salt deposits. Thousands have also left the area. The drying up of the Aral Sea has also affected the climate conditions in the area: the summers have gotten hotter and the winters colder.¹²³

Drug trade undermines the stability of the region – expanding criminality, drug abuse and epidemics

The proximity of Afghanistan, the largest producer of heroin in the world, significantly undermines the stability of Central Asia. Afghan narcotics are smuggled primarily through Central Asia, Iran and Pakistan, as a result of which those countries are facing severe problems such as organised crime, corruption, increasing drug abuse and spreading of HIV.¹²⁴ Because of their political and economic weaknesses, the countries are experiencing severe difficulties in combating drug trafficking and organised crime surrounding it. Neither are they capable of dealing with drug abuse and epidemics, as the social and health institutions are in a weak condition.¹²⁵

Among the non-traditional security threats facing Central Asian societies, the trade in narcotics is one of the most severe and profoundly affecting. It has large societal, economic and political consequences, of which drug addiction, crime and epidemics threaten the fabric of societies, and corruption impairs the states' economic and political functioning. Moreover, drug trade has links to rebellious movements and terrorism, and this way poses a regional and international security threat in a traditional, military sense.¹²⁶

¹¹⁶ Hodgson, S.: Strategic Water Resources in Central Asia: in search of a new international legal order. EUCAM Policy brief No. 14, May 2010.

¹¹⁷ Pannier, B.: Battle Lines Drawn In Central Asian Water Dispute. RadioFreeEurope/RadioLiberty 19.4.2009.

¹¹⁸ See e.g. EurasiaNet 8.12.2010: Uzbekistan vs. Tajikistan: Competition over Water Resources Intensifying.

¹¹⁹ UNDP 2003: Addressing Environmental Risks in Central Asia.

¹²⁰ Aral Sea Foundation. <http://www.aralsea.org>.

¹²¹ Bennett, K.: Disappearance of the Aral Sea. World Resources Institute 23.5.2008.

¹²² UNDP 2003.

¹²³ Walters, P.: Aral Sea Recovery? National Geographic 2.4.2010.

¹²⁴ International Narcotics Control Board 2009, 102.

¹²⁵ Swanström 2010, 44–45.

¹²⁶ Swanström 2010, 36.

Political parties in the 2010 parliamentary elections in Kyrgyzstan – what does it tell us about the party development?

By Aida Alymbaeva

Background

Within the last five years Kyrgyzstan, a landlocked and impoverished country in Central Asia, has witnessed two so-called revolutions in March 2005 and April 2010 that led to the ousting of the first two presidents of the country – Askar Akaev and his successor Kurmanbek Bakiev. The high level of poverty, unemployment and corruption as well as degrading social safety net services in the country, which remains predominantly agrarian, were one of major reasons why large groups of people, especially from outskirts of Bishkek city resided by internal migrants, protested. During these events, another group of actors, including non-governmental organizations and opposition parties, also protested against the rampant nepotism, illegal privatization of national businesses by people close to the presidents, pressure on freedom of speech and expression, and mass violations of human rights, including electoral.

In the aftermath of the so-called April 2010 revolution, an interim government that was largely composed of members of former opposition parties - Ata-Meken, the Social Democratic Party of Kyrgyzstan and Ak-Shumkar (White Falcon), was set up. The first resolution issued by the interim government was to transform the country from a presidential to parliamentary governance system by changing the Constitution and conducting a national referendum. A national referendum held on June 27th 2010 legitimised the Constitution and thus, laid the foundations for the first parliamentary state in Central Asia and one of the few in the post-Soviet area¹. Parliamentary elections were scheduled for October 10th 2010. When these parliamentary elections were announced, the number of parties increased and had reached 152 by July 2010². There were only 90 parties registered in early 2010. Looking back on the history of party development in post-Soviet Kyrgyzstan, it is worth noticing that parties have emerged when parliamentary elections have been called. The number of parties increased to 14 before the first parliamentary elections in 1995³ and this trend continued in 2000 and 2005, before the parliamentary elections held in those years, when the number of parties reached 50 and 60 respectively⁴. Parties of those in power followed the same trend. The Alga, Kyrgyzstan! (Forward, Kyrgyzstan!) Party was set up by the first President, Askar Akaev just before the

parliamentary elections in 2005. His successor, Kurmanbek Bakiev formed his Ak Jol (Happy Way) Party before the pre-term parliamentary elections in 2007.

For the parliamentary elections in October 2010, 29 out of 152 parties were able to undergo the pre-election procedures set up by the Central Election Committee of Kyrgyzstan and raced for 120 seats in the new parliament. A half of 29 parties were the brand new parties established just before these elections.

Implications

Despite the large array of parties, these elections have reaffirmed the fragility and feebleness of the parties and their significant difference from mass parties in Europe. First of all, the parties have not yet identified a clear set of values that they are going to pursue. During the election campaign, voters were unable to differentiate between the parties as both existing and newly created ones did not present voters with distinct and clear programmes. Instead, a party manifesto covered the complete spectrum of values attributable to left, right or centrist parties. Given the absence of distinct programmes, party loyalty, as in the past, was largely based on candidates' personalities, regionalism and patronage and their election strategies of parties were accordingly based on these three pillars. In Kyrgyzstan, political parties are constructed from above by political elites who use them as self-promotion mechanisms, especially during elections. The lack of a clear vision and values that the parties stand for, forces voters to unite around a leader, so during elections, voters choose parties primarily because of the personalities of their leaders and top party members. In Kyrgyzstan, competition for power distribution and resource sharing has traditionally been between political elites from the northern and southern regions, meaning that regionalism has become a strong political currency. Party politicians, who are mostly former senior government officials, exploited the patronage networks to get their clients (e.g. leaders of village councils, clans and in some cases criminal groups) to pledge electoral support in exchange for access to the spoils and other favors if they were elected to parliament.

Given the lack of well-articulated programmes on how to further develop the country, parties have also started to curry the attention and loyalty of voters by raising salient issues such foreign policy, court proceedings against the former two presidents and a return to the presidential system of governance. By offering contrasting views on salient issues, the parties tried to differentiate between themselves. For example, Russian vs. US foreign policy was the commonest issue discussed by parties, followed by a

¹ Decree №1 dd. April 7, 2010 by the Interim Government of the Kyrgyz Republic, an official website of the Interim Government, www.kyrgyz-el.kg.

² Information retrieved from www.vesti.kg.

³ History of Development of Non-Governmental Organizations in Kyrgyzstan. Bishkek, 2006, p.14.

⁴ The influence of Civil Society on the Human Development Process in Kyrgyzstan, The UNDP National Human Development Report. Bishkek, 2005, p.63.

debate on the type of governance system - presidential or parliamentary. Often parties made populist appeals in order to gain electoral support. For example, the Respublika party promised to radically reduce the interest rate on housing loans from 18%-20% to 9%. Some other parties used nationalistic slogans.

The elections showed again the high volatility of parties on the electoral market indicating about inchoate (under-institutionalized) party system in Kyrgyzstan. As a result, brand new parties easily won elections. Two out of the five parties elected to the new parliament, Respublika and Ata-Jurt (The Land of Fathers), were newly established ones.

The lack of both party loyalty based on values and party discipline has resulted in party members and in some cases leaders of parties, joining other parties. For example, many members of the former ruling party Ak-Zhol quickly joined other parties competing for seats in the new parliament. The former leader of the Turan Democratic Party abandoned his own party to act as one of the senior leaders in the newly created 'Egemen Kyrgyzstan' party, while Roza Aknazarova, a leader of the 'El Yntymagy' (People's Consent) party joined the brand new 'Respublika' party to head their part list. There were many other such examples.

The Central Election Commission of Kyrgyzstan had official announced the elections results on November 1, 2001 and declared that five out of 29 parties were elected to the new parliament. None of these five parties have had the majority of seats. Meanwhile, the voting rate was 56% that was one of the lowest in the history of post-Soviet Kyrgyzstan.

Conclusions

These elections have demonstrated once more that party system in Kyrgyzstan is inchoate with high volatility of parties on the electoral market that are mostly driven by the self-interest of their leaders. This can undermine the essence of parliamentary governance system with elected parties ought to represent the interests of broader groups of society, but not narrow elites. This, in return, would tempt other political elites to question the legitimacy of such legislative and executive powers, which took Kyrgyzstan seven months to re-build after the 2010 April revolution, and create tensions around it. Meanwhile, constituents, who were the drivers of two revolutions, can demand changes, if their economic well-being is not improved. In calling for changes, they can stand up for new leaders, even more short-sighted or radically religious, who can bring more turmoil and economic grievance for the country. Therefore, modernizing institutions, including political institutions both at central and local levels as well as educational institutes, should become the key priority for the country, the international organizations and

governments providing assistance to Kyrgyzstan. If not, the country will remain more susceptible to religious and other extremist groups that may in turn affect stability and security in the whole Central Asian region.

Future developments

Kyrgyzstan will hold new elections in 2011 – presidential ones. The term of the current President Roza Otunbaeva, who was elected for this position only for 1.5 years in order to urgently restore a legitimate power in the aftermath of the 2010 April revolution, will end in December 2011. Elections would seemingly schedule for November 2011 with presidential campaign to start in early fall. Leaders of parties, including those elected to the new parliament and some further to the new cabinet, would most likely run for these elections. The first likely candidate is the leader of Ar-Namys (Dignity) party, Felix Kulov, who was backed by Russian government during the last parliamentary elections and who refused to join the current coalition government as he was not offered the Prime-Minister's position. Felix Kulov and his party members seemed purposefully distanced themselves from the current cabinet in order not to be accountable for economic decline and social grievances that Kyrgyzstan continues to experience nowadays. This, in turn, could serve as their best mobilization strategy during presidential campaign. The next candidate is the co-leader of Ata-Jurt Party, Kamchibek Tashiev, whose co-leader, Akhmatbek Keldibekov, now serves as the Parliament's Speaker. They will seek to expand their power by occupying the president's position in order to control security issues and foreign relations. The leader of Social Democratic Party of Kyrgyzstan, Almaz Atambaev, who is currently acting as the Prime-Minister, would seemingly escape presidential elections this time in order to remain the key influential figure in the executive government and to secure his personal business interests. He knows that it is costly to leave the prime-minister's position as the president does not control economic domain that is more luxurious.

Presidential elections in 2011 in Kyrgyzstan would continue to be driven by personal rather than by public interests as the institutions in Kyrgyzstan are constructed from top by elites and are less rooted in and less controlled by civil society. In such a system, personal behavior and actions, which are less predictable, dominate political space.

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Social standards in Ukraine and the EU

By Maxim Boroda

Social utopia, election economy

Social security always was and remains today the most erogenous zone for Ukrainian voters. It is freely stimulated by the country's political leaders as they attempt to bring the electorate its latest political frisson and to gain more seats and power in return for the thrill. This all has its roots in soviet times, in the idealized enticements that elderly Ukrainians like to bring up to this day: free medicine and education, and wages and pensions that allowed for a comfortable existence.

The highly sensitive nature of social benefits is completely natural, as their impact is directly and immediately felt by most ordinary Ukrainians. Massive investment projects require decades; even a serious improvement in the business climate takes years. Only social benefits can be easily raised within a month. Because of their lightning-fast effect on voters and the short-term euphoria that results, such steps have more than once been compared to injecting a drug. Would it not be better for Ukrainians to kick their social benefit "habit" before they overdose on populism in the form of another economic crisis?

If we were to chart the intensity of policy decisions in the social sphere, it would come as no surprise to anyone that the greatest activity matches election cycles. Moreover, the political rationale for these decisions generally overrides economic considerations. Instantaneous pension hikes under Leonid Kuchma and the recent increase in social standards are only two examples among a plethora.

Don't trust fortune-tellers

All in all, raising social standards at a time when there is an economic crisis is a fairly dangerous decision that will mostly bring negative consequences, such as:

- Underfunding public spending that is not directly connected to the state's social commitments;
- Growing inflation and downward pressure on the national currency, leading to its further devaluation and growing prices;
- Overloading the economy with external and internal borrowings, leading to a serious rise in the cost of servicing public debt;
- Ineffectively privatizing state assets. Who sells off when asset values have bottomed out? It makes little economic sense, as the Odesa Port Plant, as an example, was worth several times more just 18 months ago;
- Stimulating the shadow economy through the indirect rise in pressures on business as social standards rise and it becomes highly likely that pressure will increase as the Government looks for sources of tax and other revenues for the Budget;
- Reducing the tax base of individual taxpayers, leading to a reduction in revenues to the State Budget.

Still, it is worth noting that there are also some possible positive consequences from raising social standards, including:

- Growing real disposable incomes that could, however, be wiped out by both devaluation and inflation in time;

- Injecting serious cash into the country's economy, spurring demand and fostering a more rapid economic recovery from the crisis as consumption revives.

Homework: How this is done in Europe

None of the members of the EU has such a system of social standards that is as integrated as the one Ukraine has maintained to this day. For most European countries, the poverty level is the closest analogy to Ukraine's subsistence minimum, although it is based on the size of the average salary. This is the indicator used by France, Germany, Spain and Great Britain. Meantime, countries like Poland have, in addition to the poverty level, such indicators as subsistence and social minimums, which are determined according to the amount of money needed to survive physically and the amount needed to satisfy basic social needs.

Moreover, EU countries use such indicators typically only for statistical tracking and not to determine social transfers, as is the case in Ukraine. Instead, the latter are calculated separately for each socially vulnerable group or even individual households or persons, based on their specific needs. One of the exceptions, again, is Poland, where the poverty line is used to calculate all social benefits.

Most European countries, like Ukraine, legislate minimum wages. Still, this indicator is only a limit in the EU, meaning that no one should receive less for their work, and not the basis for determining the salaries of employees in the public sector, as is done in Ukraine. Specific categories of wages are distinguished by their clear rules, which gives the state the option of having a targeted impact on wage conditions in one or another population group.

At the same time, the relationship between the minimum and average wage in Ukraine is completely within European norms. According to statistics from 2009, this indicator was 50% in France, 49% in Great Britain, 43% in Poland, 32% for Spain, and 41% for Ukraine. Nevertheless, we need to remember that the calculations mentioned earlier use official data regarding the average wage, which does not reflect shadow wages and other distortions in Ukraine's official statistics. In reality, the relationship between these two indicators is much worse in Ukraine.

The main difference between Ukraine's social standards and their European counterparts lies in the fact that these are vague, relative amounts that can rise or not based exclusively on political considerations, largely without taking any economic dynamics into account. Thus, despite the constant declarations of politicians of all strips about the need to raise the standard of living of ordinary Ukrainians, they did not review the country's social standards for years when the economy was growing steadily and the hryvnia was stable.

Nor is it any news to most people that Ukraine's subsistence minimum and minimum wage are fairly difficult to even survive physically on. Meanwhile similar indicators in the European Union generally have two components: a smaller portion that reflects the amount necessary to simply survive and a larger portion that is

intended to cover all basic social needs and ensure the individual a minimum acceptable standard of living within the society.

Fixing mistakes

The impact of social standards on Ukraine's economy is not at all just a matter of social security or budgetary policy. It is much broader and the consequences of decisions to raise them will be felt by every single Ukrainian. What, then, can be done to encourage more thoughtful social policies and a system of social standards that more effectively performs the function of social security for the most vulnerable social groups?

Firstly, what is worth doing is reviewing the system of government social guarantees in its entirety and the social security system. Right now, the country's Budget carries an enormous burden due to the unimaginable number of wide-ranging privileges and other forms of social support that, too often, go not to those who are in greatest need of this support. Changing these privileges to the more contemporary, transparent and effective instruments of targeted social support will free up large volumes of public money and to direct them, among others, towards raising social standards.

The relationship between individual social standards indicators should be established at the legislative level. After all, the minimum pension cannot, a priori, be lower than the subsistence minimum or higher than the minimum wage.

A subsistence minimum should be calculated on a household basis, not an individual basis. This will make it possible to more clearly establish actual needs and to reflect the economies of scale that arise when people live together. To make such calculations more accurate, a number of different types of households should be defined and each of them designated their specific subsistence minimum. At the same time, such factors as where the family lives should also be taken into account as the costs of living in a village and in a major city differ significantly

In summary, we can say that raising social standards is a necessary and rational step, but it needs to be done not right now and not in the way that it was done. For social standards to stop being simply weights that are added to the scales of political horse-trading every election and to actually satisfy the basic needs of the poorest Ukrainians, they need to become more European in essence.

To sum up...

Ukraine's social sector is very inefficient. Social transfers, specifically pensions, are too large, while health care and education are poorly financed. All reforms are complicated by the 1996 Constitution, which essentially prohibits any deterioration of social benefits. The most urgent need is to rein in the excessive pension costs. The best way of doing so is to gradually raise the extremely low retirement age and end even lower special retirement ages. In health care and education, the financing system should be oriented toward paying for delivered services rather than the maintenance of real estate and staff. Social benefits should no longer be

privileges for the well off but transformed to target those in true need. The social delivery systems need to be decentralized and given proper governance.

- Pensions should be adjusted to the contributions made, while a minimum public pension would safeguard a minimum living standard. Conditions should be adjusted to bring self-employed individuals into social security.
- A unified social contribution should be introduced, which should be collected by the State Tax Administration or another relevant agency, ending the collection by the various social funds. Social benefits especially designed for certain professional groups should be abolished.
- A universal individual insurance record should be introduced, and all insured individuals should receive an annual statement on their entitlements and premiums they have paid. Administration of mandatory social insurance must be simplified to reduce its cost. The best way of doing so is to introduce a flat social insurance premium.
- The methods of computing the costs of living to define the minimum social guarantees need to become more transparent realistic. A reasonable relationship should be legislated between minimum salary and minimum pension. Minimum social guarantees should be differentiated in accordance with regional cost of living.
- Assistance to poor families should be consolidated and based on their net incomes. General family allowances should be maintained to families with special needs children and families with newborn children to encourage procreation.
- Delivery of some social services could be transferred to nongovernmental organizations with strict government control of quality and price.

Expected developments in 2011

For those in power, 2011 will become a year of preparation for two defining events: the parliamentary elections and EURO 2012. They will create two cross-pressures. On the one hand, the authorities will have to continue the tactics of "tightening the screws" of economic and fiscal policy. Taking into account the apparent absence of foreign investments, this is the only way to amass resources for the implementation of infrastructural projects before EURO 2012. On the other hand, the approaching elections will not allow them to forget about the electorate and will bring the return of traditional promises about increasing social subsidies. This course was already taken by the government in late 2010 when it promised to reconsider the social component of a budget.

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Political and social stability in Ukraine after the first year of Yanukovich's presidency

By Alexander Kulakov

In the interview with Rostislav Khotin, editor of BBC Ukrainian service, in Davos, Switzerland, the President of Ukraine Viktor Yanukovich summed up his first year in office. In particular, he said the following: *"I think the main thing is that in Ukraine the political and economic stability was established. That is, the result of this work – this is a positive statistical data on almost all fronts."*

I will try to analyze this statement of the President of Ukraine. To begin with, as a result of the presidential elections on February 7, 2010 the President of Ukraine Viktor Yanukovich was elected. His advantage over the main rival, Yulia Tymoshenko, was 3.5%. The key provisions of the election program of Viktor Yanukovich, entitled *"Ukraine – for the People"*, were aimed at implementing the systemic reforms in the country and fundamental changes in society. As a result, the proposed measures suggested that in 10 years Ukraine could become one of the most economically developed countries.

To achieve these goals Viktor Yanukovich in his Program proposes to introduce *Investment – Innovative Model for Economic Development* of the national economy. It was declared that through changes in tax laws, as well as through the implementation of integrated action to improve access to markets of the country Ukraine could be made more attractive for investments in Eastern Europe. The election program of Viktor Yanukovich also stressed the need to implement a system of measures for the revival and development of Ukrainian agriculture. In addition, it highlighted the importance of supporting small and medium-sized businesses through improving their access to credit, reducing the tax burden and reducing their tax payments to companies that create new jobs. The program also included an intention to reform the system of local government, health and education. In the election program of the future president much attention was also given to social guarantees of citizens of Ukraine, including support for young families and retirees. It should be noted that the concept of "political and social stability" is never mentioned in this document, but the significance of its achievements implied as such, which would enable the authorities to carry out the implementation of assigned tasks.

It should be recalled that as a result of the global financial crisis, 2009 was the year of the catastrophic fall of the Ukrainian economy, which naturally affected the socio-economic situation in the country: GDP contracted by 14.8%, inflation stood at 12.3%, unemployment rose to 9.4%, volume of foreign trade declined by more than twice. Against this background the political standoff between President Viktor Yushchenko and his political supporters, Prime Minister Yulia Tymoshenko and Bloc Party, to which she relied, and the largest opposition party, the Party of Regions, headed by its leader Viktor Yanukovich

had extremely aggravated. The result was paralyzed parliament of Ukraine – the Verkhovna Rada of Ukraine – and draft laws that were necessary to meet the challenges of overcoming the crisis in the economy were trapped. If the growth of ideological confrontation between different groups of citizens of Ukraine – based on linguistic differences and different assessments of historical facts and encouraged by both internal and external forces – is also added to this, a political-economic portrait of Ukraine on the eve of presidential elections in Ukraine in 2010 looked dismal. Note also that the outcome of the elections once again underscored the "split" of Ukraine to almost two equal opposing camps.

Since coming to power, Viktor Yanukovich considered as a priority task to build a so-called "vertical of power". By this it is meant to make legislative, executive, and local authorities to act in one direction, performing the tasks assigned by the President. And the first steps of Viktor Yanukovich were aimed at creating a parliamentary majority on the basis of the Party of Regions at the Verkhovna Rada of Ukraine. Rather quickly such a coalition was formed. On March 16, 2010 the agreement on forming a coalition of factions *"Stability and Reforms"* was signed by representatives of the Party of Regions, Communist Party of Ukraine and Lytvyn Bloc.

The next step of Yanukovich became resonant action on the abolition of the political reform of 2004. (It should be recalled that during the "Orange Revolution" the compromise was gained, under which the constitutional reform in Ukraine was carried out. As a result, the President's powers were considerably limited, and the Verkhovna Rada of Ukraine had the opportunity to form a government of the country). On the basis of an appeal to the Constitutional Court of Ukraine of deputies of the Verkhovna Rada, the Constitutional Court made a controversial decision that the Constitution of Ukraine of 2004 was revoked. The Constitution of 1996 entered in the action and, thus, recovered very extensive powers of the President of Ukraine.

The final effort in the direction of building "a vertical of power" was the local elections in 2010. As a result of elections held on October 31, 2010, the Party of Regions had significantly increased its representation in local government in regions where it previously did not have much influence. It should, however, be noted that, according to representatives of opposition parties, the ruling party has widely used so-called "administrative resources", as well as pseudo-legal means for removal of these parties from the elections in some regions.

Concurrent with the work of the President and his government, aimed at concentrating power in the hands of one (propresidential) political force, General Prosecutor's Office initiated the investigations of a significant number of criminal offenses related to

abuse of office, causing significant material damage to the state. The suspects in these cases were a large number of top-level government officials who worked in the government of Yulia Tymoshenko, and the former prime minister herself was among the defendants. To date, it is difficult to say if the accusations are valid, but the overwhelming majority of Ukrainian citizens consider these actions of the current government as political persecution. The decision of the Czech Republic with respect to the granting of political asylum to Bohdan Danylyshyn, the former Minister of Economy of the Tymoshenko's government, especially reinforced this view.

In the economic sphere, President Viktor Yanukovich and his government have focused on the country's withdrawal from the deep economic crisis. The urgent steps have been taken to stabilize the economic situation in the country. In 2010 official statistics recorded a noticeable progress, compared to the previous year. Thus, GDP growth for the three quarters of 2010 amounted to 3.4%, compared with the 14.8% fall in the previous year, inflation has declined somewhat, the foreign trade turnover increased by one third. The industrial production increased markedly and the agricultural output increased slightly. Statistical agencies have also reported an increase in real wages across the country and its regions. It should be noted, however, that many Ukrainian analysts believe that the main factor in the economic growth of the country has been the improvement of the economy of other countries – major importers of Ukrainian production.

In late 2010 the new government adopted two important laws that will govern the economic development of Ukraine in 2011: the Tax Code and the Budget 2011. As conceived by the government the Tax Code will classify the tax laws of Ukraine and facilitate their use by business entities. In addition, this document provides lower rates for income tax and VAT. So, from April 1, the tax rate on profits of enterprises will decrease by 2% to 23% in 2012 – up 21% from 2013 – up 19% from 2014 – up to 16%. VAT will be reduced from 1 January 2014 from 20% to 17%.

At the same time, this law has substantially limited the possibility of using so-called "simplified" taxation system, which applies with respect to small entrepreneurs, as well as some other provisions that make their continuing operation unprofitable. The result of these innovations was the *"Tax Maidan"*, which was attended by over 700,000 entrepreneurs throughout Ukraine. They demanded the abolition of this document. Eventually a compromise was reached whereby in the near future the Code will be amended, which, apparently, will satisfy the requirements of the protesters. Nevertheless, according to the forecasts of Ukrainian business associations, more than 150,000 business owners have to shut down their operations after April 1 this year.

As for the Budget 2011, in the opinion of experts, this paper shifts the tax burden from large taxpayers on the shoulders of small businesses and ordinary citizens. Most of the tax revenue will be paid by final consumers, one way or another. Experts believe that

shifting the tax burden from large enterprises to small businesses and consumers is extremely risky and can put an end to the planned wage increases in 2011, which in turn automatically leads to a shortfall in the Pension Fund.

In this regard, attention should be paid to the January forecast of the European Bank for Reconstruction and Development, which noted that the growth of Ukraine's economy will slow down, and the result of 2011 will be 4% – not 4.5% as previously expected. Thus, the bank has lowered its estimates of GDP growth in Ukraine in comparison with its own previous estimates, made in October 2010 at 0.5%. In the official statement of the bank, the changes in the forecast for Ukraine are not clearly justified. However, one of the main causes of its decline is the concern about the "fiscal stability". It is not excluded that the increased risks of a slowdown in the Ukrainian economy appear because of changes in tax laws, as the single most important – from a macroeconomic point of view – event for the period from October 2010 to January 2011 was the adoption and entry into force of the Tax Code.

Since the second half of 2010 the President of Ukraine Viktor Yanukovich and his government embarked on the reform package. First, in accordance with IMF recommendations, the development of pension reform has been started. The draft law "On measures for the legislative support of the pension system", developed by the Government, in particular, provides for progressive – until 2020 – raising of the retirement age for women (from 55 to 60 years) and since 2013 - raising of the retirement age for male civil servants from 60 to 62 years, and sets term limits for public service. In addition, the bill proposes to increase the regulatory length of labour service required to obtain the minimum pension from 20 years for women and 25 for men to 30 and 35 years respectively. These proposals provoked a wave of protests. In several cities of Ukraine, in particular, Simferopol (Crimea), there were rallies of citizens (mostly women) who expressed opposition to the plans of the government. According to the protesters, the model of pension reform only puts the social responsibility on the shoulders of citizens and "presents" to public the raising of women's unemployment, lack of jobs for young people, and will worsen the pensions of military personnel. Apparently, due to the sharp criticism of the public on January 31 it was reported that the Government intends to withdraw the bill from Parliament for further elaboration.

Next step on the path of reforms was the administrative reform. It should be noted that from the point of view of Ukrainian and European experts, this reform is a key to the implementation of economic reforms in Ukraine, since it provides power tools for their implementation. According to the Decree of President Viktor Yanukovich, the Committee on Economic Reforms was asked to "work out within a month the issue of optimizing the system of central bodies of executive power, to eliminate duplication of their powers, and to ensure reduction of administrative personnel and expenses for its maintenance." Shortly

after the Decree, the new structure was introduced, under which the number of ministries was reduced to 16, and members of the Cabinet of Ministers of Ukraine to half. In addition, it was stated that the total number of civil servants working in the central organs of executive power will be reduced by 30% and will soon be approximately 130 thousand people. Appreciating the first stage of administrative reform, it should be noted however, that the "arithmetic" of action in this direction is still insufficient. It is necessary to clearly delineate the functions and powers of ministries, services and agencies, which are defined in the system of government. In addition, it would be necessary to think about what to do with 56 thousand mostly highly skilled public servants who may soon be in the labour market.

In conclusion, it should be noted that the president's team has also started very important reforms in the housing and communal services of Ukraine and system of education, working on a new Labor Code. All these areas have long needed a drastic change, and, therefore, the intention of President Viktor Yanukovych to bring all these spheres of public life in accordance with the requirements of modernity should be welcomed. At the same time, these spheres are all very "sensitive" as they affect the interests of the vast number of Ukrainian citizens. For example, according to statistics, 8.5 million people receive a pension of up to

1000 hryvnia per month. At the same time, February 1, 2011 electricity prices for the population which consumes on a monthly basis over 150 kilowatts increased by 30%. Tariffs for water supply also increased: in Kiev for 11%, in other cities up to 15%. In general, according to the National Forum of Trade Unions, in 2011 the average cost of each Ukrainian family for utilities will increase by 1,700 hryvnia.

Thus, the political and economic stability in Ukraine that the President of Ukraine Viktor Yanukovych was speaking about in his interview with BBC Ukrainian service is, in my view, in a state of unstable equilibrium. Any hasty actions to implement reforms that are unpopular to the public in the context of difficult economic situation of the large number of citizens of Ukraine can cause massive protests (an example of what can become a "*Tax Maidan*" of small businesses). And given the actions of the authorities to suppress opposition, the aforementioned "economic" objections may be combined with political slogans, aimed at putting pressure on the President of Ukraine to change his policies.

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The socio-economic development of Kazakhstan

By Meruert Makhmutova

Introduction

Since independence Kazakhstan was one of the earliest and most vigorous reformers among CIS countries. Prices were liberalized; trade distortions reduced, fabrics and plants were privatized. Development of Kazakhstan's economy has gone through main stages: 1. set-back of GDP in 1991-1995 on average by 8.8% annually; 2. stagnation in 1996-1999; 3. revival in 2000-2007 with average growth almost 10% annually, and 4. slowdown in 2008-2010. The economic growth is to a large extent provided by the oil sector, thus making the economy increasingly vulnerable to volatilities of the global market.

Economic performance

Last decade Kazakhstan was one of the fastest growing economies in CIS. On average, annual real GDP growth of almost 10 percent in 2000-2007 was the result of record-breaking prices on world commodity markets. GDP per capita has jumped from \$1,200 in 2000 to \$8,500 in 2008. This remarkable growth pattern was increasingly dependent on hydrocarbon sector and foreign capital inflows. Kazakhstan has become a regional leader in FDI accumulation, with EU, US and China among the largest investors.

The banking sector was the second sector that made a hefty contribution to economic growth. Private sector development outside of the mining sector has been exclusively dependent on the banking sector. Banks have been main provider of debt capital to the non-extraction sectors and have been a major facilitator of Kazakhstan's rapid economic growth. Access to inexpensive borrowing at international capital markets that the banks enjoyed enabled them to increase lending to the economy more than 50 times over the period from 1999 to 2008. Low interest rates and inadequate assessment of the quality of lending portfolios resulted in increased bank lending in real estate and services sectors, which aggravated the systemic distortions in the structure of the economy. Increased bank borrowing led to Gross external debt (GED) reach the size of GDP. Banking sector debt, as of fourth quarter 2007, was almost 44 percent of GDP (\$45.9 billion).

This lending policy helped fuel the real estate bubble over the past 5–7 years. Poor lending practices and risk management has been a major contributing factor to the economic downturn in the country and the difficulties in the banking sector. From the second half of 2007 a worsening international environment caused a sudden stop and then a reversal in capital flows from the Kazakh banking system. Limited borrowing from international capital markets reduced the banks' ability to refinance previous foreign borrowings and obtain new loans, which resulted in an intensive outflow of capital from Kazakhstan starting from August 2007. High

concentration of the financial system, with 74% of assets making up the banking sector and 76% of banking sector assets belonging to 3 largest banks, increases systemic risks.

Essentially, weaknesses in the banking sector triggered a broad based slowdown, as all sectors (with exception of the extraction industry) posted a sharp deceleration of growth. Construction and financial sectors jointly generated nearly 50% of GDP growth in 2007, while the booming construction and financial sectors growth slowed to 16.9 percent and 52.1 percent in 2007 respectively, from record 44.9 percent and 69.7 percent in first quarter of 2007. In 2009 financial sector shrank by 10.6% y-o-y, while construction sector shrank by 4.9% y-o-y. The GDP growth in 2009 was 1.2 percent (\$107.7 billion) the lowest growth rate for the Kazakh economy since 1999¹. It was provided by extractive industry (6.1 percent y-o-y) and agriculture (13.8 percent y-o-y).

The resources of National Fund (by the end of 2010 it accumulates \$30 billion) were central to the authorities' response to the 2007-2009 global financial crises. National Fund was established with the aim to reduce the impact of price volatility on the budget² in August 2000. The National Fund accumulates the oil revenues while the price trends remain favourable in order to save it for the future generations, on the one hand, and to sustain the required level of government expenditure should the prices drop, on the other hand.

The whole government anti crisis measures amounted almost \$20 billion. According Government Economic Stabilization plan by November 25, 2008, measures to improve banking liquidity include setting up a distressed asset fund with a capitalization of \$430 million to purchase problem assets from banks, and spending up to \$5 billion of National Oil Fund assets on to buy up to 25% in four largest banks: Kazkommertsbank, BTA Bank, Halyk Bank and Alliance Bank.

Social indicators

The principle of equal rights and equal opportunities is guaranteed by the Constitution of the Republic of Kazakhstan. The problem is this constitutional provision is not strongly adhered to in practice.

Our studies show up the clear decline in human development indicators and in the protection of maternity and childhood in Kazakhstan over the last 20 years. This is especially true for health indicators: decreased life expectancy, an increased rate of maternal and infant mortality, and growing morbidity rates. The rate of GDP per capita ranks Kazakhstan as a middle income country, while average life

¹ "If confirmed, the government's full-year figure would therefore represent a remarkable bounce in the fourth quarter," JPMorgan said in a note in the mid of February 2010. "It is hard to see where the growth will have come from, even taking into account the 10 percent growth in oil output that was likely recorded last quarter."

² RK President's Decree # 402 «On the National Fund of the Republic of Kazakhstan» dated August 23, 2000.

expectancy puts the country behind not just the countries with high and middle incomes but behind some of the poorest ones also. It is a result of the reduced public funding and an emerging group of newly poor people with limited access to education, healthcare and social services. A significant gap in costs per capita remains among the regions.

Public funds are the main sources of access to education and healthcare services. Public expenditure on education, healthcare, and social protection tended to decline for last 20 years. Thus, in 1991 public budget expenses on education were 6.5% of GDP; in 2000th they nearly halved and added up to 3.5% of GDP, just in 2010 education expenses rise up to 4.2% of GDP due to Nazarbaev University establishment. Public health expenses in 1991 were 3.6% of GDP and only 2.5% of GDP in 2010. Social protection expenses were 4.6% of GDP in 2010, though it was 4.9 % of GDP back in 1991 when there was less poverty in Kazakhstan.

The number of people in need of social protection is different in the oblasts, while the law "On targeted social aid" (article 4) provides that "the TSA is provided based on the capacity of local budgets" but the local budgets have different capacity.

Economic stabilization and growth enable a higher demand for labour force and improve the employment status of the population. In 1999–2006 labour force increased permanently, exceeding 8 million people in 2006. The rate of economic activity stood around 70% but the picture not so optimistic if we will take into account self-employed people³. In 2009 2.7 million people were self-employed.

Unemployment was not registered till 1994. The unemployment rate jumped from zero in 1991–1993 to 13.5% in 1999, and decreased to 6.6 in 2009. The unemployment rate of women is higher (7.5%) than men (5.6%). It differs also for urban (7.2%) and rural area (5.9%). The lower rural unemployment rate is linked to the prevalence of self-employment in rural areas.

Table 1 Key macroeconomic indicators in Kazakhstan

	2003	2004	2005	2006	2007	2008	2009	2010*
GDP growth (% , change)	9.3	9.6	9.7	10.7	8.9	3.3	1.2	1.5-2.0
GDP per capita (\$)	2068.0	2874.0	3771.0	5292.0	6772.0	8514.0	6732.1	7191.9
Current account (% to GDP)	(0.9)	(0.8)	(1.8)	(2.5)	(7.9)	(4.7)	(3.2)	-
Trade balance (% to GDP)	11.9	15.7	18.1	18.1	14.4	25.3	14.1	12.8
Exports (% , change)	32.0	55.7	37.4	37.0	24.7	48.8	(39)	7.8
International reserves (\$ bln)	5.0	9.3	7.1	19.1	17.6	19.9	23.2	-
FDI (% to GDP)	7.2	12.6	3.7	8.2	7.6	11.1	8.9	-
State debt (% to GDP)	15.0	11.4	8.1	6.7	5.9	6.4	13.0	16.6
National Fund (% to GDP)	11.5	11.4	14.2	18.1	20.0	20.5	27.9	30.3

Sources: *Statistic Agency, National bank, and Government forecast for 2010*

³ Self-employment is an activity, in which the size of remuneration depends on income received from production and sales of goods and services (when own consumption is considered as a part of income).

Poverty is not a major concern for government of Kazakhstan. Since 2005 government have not been develop poverty reduction programs. According to the data of Agency of the Statistics in 2009 8.2% of the population – or over one million persons – were unable to meet their basic food needs (defined subsistence level). The main reasons for poverty are large household size, low level of education of household's head and lower opportunity to find job for household adults. Poverty is higher in rural areas (21.1%) than in urban areas (4.1%). The oblasts with highest rates of poverty are Almatinskaya, Kyzylordinskaya and Mangistauskaya oblasts – two last of which are oil reach oblasts.

Conclusions

Kazakh economy is facing a number of challenges, including economy dependence on oil prices, capital inflows, foreign debt of banks and companies, small sector of small business, non diversity of the economy and low level of income of population. Improved education and healthcare along with adequate social protection are important for the quality of life, being decisive factors in economic development at the same time. Educated, healthy people work more efficiently.

Certain Millennium Developments Goals are directly connected with education and healthcare indicators. Kazakhstan has achieved its objectives in education, but with regard to infant and maternal mortality indicators, this objective is hardly achievable by 2015.

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Factors of poverty in Moldova

By Valeriu Prohnițchi

There is a long-lasting academic discussion in the economic literature about key drivers of poverty. Some authors consider mainly the macroeconomic and structural constraints; others give attention to households and individuals' characteristics. In this short article, after a brief account on key economic and social evolutions, we will turn to the household-specific determinants of poverty in Moldova. An outline of the policy implications and the outlook for 2011 end this article.

Economic growth and poverty: a missing link

In the recent two decades the Republic of Moldova, which gained its independence in 1991 on the ashes of the former USSR, has passed through a difficult transition to the market economy. Between 1993 and 1999 the country's GDP has collapsed by more than 65% in result of unsuccessful transitional transformations. The severe economic decline exerted adverse impact on the population welfare, with the poverty headcount reaching almost 70% in 1999 (calculated against national poverty line).

However, between 2000 and 2008, Moldova's economy has witnessed strong and continuous growth at a healthy rate of 6.1% on average. The sharp 6.5% contraction of the economy in 2009 has been followed by an equally impressive 7.0% in 2010. As highlighted in the Table 1, at its earlier stages in 2000–2004 the economic growth was accompanied by a reduction in poverty rate, which fell from the 70% in 1999 to 26.5% in 2004. The growth has become also somewhat more egalitarian than in the past. However, afterwards, the relationship between economic growth and poverty has weakened: despite continued economic growth, the poverty incidence rose to 30.2% in 2006 and afterwards hovered around 25–26% in 2007–2009. Interesting enough, in 2009 the poverty did not worsen despite the plummeting economy. This resilience of poverty in the context of a growing economy can be explained by some structural and households-specific factors, as shown in the next section.

Household-level determinants of poverty

Statistical data prove that some groups of households are constantly more vulnerable to the poverty than others. There are several factors influencing the level of poverty risk.

Residence and region. In the rural areas the incidence of poverty is much higher than in urban ones: 36.3% in villages, as opposed to 19.7% in small towns and 7.0% in big cities. Because Moldova fares a very high share of rural population (55% of total), it is clear that rural poverty is one of key drivers of general poverty. At the same time, the recent decade of economic growth has been basically an-urban-based economic growth, while rural areas remain in economic depression. In a regional profile southern Moldova is more exposed to poverty (38%) than Northern region (28.3%) and Central one (33.2), whereas in the capital-city area the poverty incidence was only 5.3%.

Size and composition of the household. Bigger households are more exposed to poverty. In particular, this is true for families having big number of children. Half of Moldovan families with 3 and more children fall below national poverty line and the poverty risk for this group has worsened in 2009–2010. *Household head's level of education.* Risk of poverty is much higher for individuals leaving in households led by people with lower educational background. Risk of poverty grows tremendously from 4.1% in case of households headed by people with university or higher education up to 57% in case of those headed by people without formal studies or illiterate.

Socio-economic category. The name of this criterion actually points to the main source of income that a given household relies on. Those deriving their main income from agricultural activities – i.e. farmers – face the highest risk of poverty. The level of poverty for this group was 51% in 2009, which is almost twice above the average. In fact, the economic downturn in 2009 reflected almost immediately on the welfare of this group, with incidence of poverty rising more than 14 percentage points in only one year. About ¼ of the Moldovan labour force is permanently or periodically working abroad, with migrants remittances accounting for more than 33% of the GDP in 2008. Having a family member abroad reduces almost twice the risk of poverty.

Policy implications

The brief analysis exposed above has several key implications for a successful anti-poverty strategy in Republic of Moldova. However, because the key determinants of poverty are of structural origin, this strategy will bring fruits only in long run.

- Moldova is a rural society and so is the poverty profile. Therefore, the Moldovan government has to give priority to infrastructure projects and training programs leading to more equal distribution of gains from domestic and international trade so that the rural inhabitants can gain from the rapidly growing domestic consumption and from the high level of openness of the Moldovan economy.
- The government has also to do its best to break the vicious circle of poverty determined by the poor education. While the Constitution provides for an universal coverage with compulsory education, the gross enrollment rate in compulsory education has declined from 95.1% in 2002 down to 90.7% in 2009, almost entirely on the account of children residing in villages.
- The reform of the social assistance that began in 2007 has to accelerate. Currently social transfers have almost no incidence of poverty, shown by the fact that 41% of the rural payments receive some forms of state support. The poor targeting of the social assistance reflects in high inclusion-exclusion errors and leads to waste of resources.

Expected developments in 2011

The economic growth resumed in 2010 and is expected to persist in 2011, which should protect Moldova from slipping back along its way of poverty reduction. However, with an economic growth model limited to urban areas and a sluggish rural economy, large social groups will not benefit of the economic recovery. The new government sworn in on January 14, 2011 has identified the 'society without poverty' as one of its core objectives. Considering how deeply entrenched are the structural factors determining the poverty phenomenon and the limited policy and administrative capacity the government has, this objective is hardly possible to achieve. However, some progress should be expected if the government is serious about several key commitments it undertook to implement: developing a social assistance system based on evidence of real needs, increasing the amount of minimal revenue guaranteed for the vulnerable families and providing these families financial support for heating services.

Conclusions

In less than one decade poverty headcount in Moldova declined almost three-fold. However, with one quarter of its population still below the national poverty line and with the GDP per capita less than

3000 USD (PPP-based), Moldova remains one of the poorest countries in Europe. Currently, the poverty phenomenon represents the combined effect of inefficient economic reforms and of the poor social safety net, but at individual level the risk of poverty is magnified by rural residency, big size of the family, low level of education of the household's head and excessive dependency on farming activities. Migration has been the main strategy that one quarter of the Moldovan labour force successfully adopted to escape poverty. However, from the national policy perspective, the positive impact of this strategy on poverty will fade out as an increasing number of Moldovan families start reuniting abroad. Unless a better-targeted social protection system is put in place and more pro-rural economic policies are adopted, reduction in migrants' remittances will have significant social and economic consequences for the country.

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Table 1 Economic growth and poverty indicators in Republic of Moldova

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP in % as compared to the previous year	96.6	102.1	106.1	107.8	106.6	107.4	107.5	104.8	103.0	107.2	93.5
GDP/capita, USD, PPP-based	2033	2112	2300	2533	2765	2028	2362	2561	2715	2986	2843
National poverty line headcount, % of population	70.1	67.8	54.6	40.4	29.0	26.5	29.1	30.2	25.8	26.4	26.3
Poverty gap index, %	n.a.	27.0	19.3	12.4	7.3	6.8	8.0	7.9	5.9	6.4	5.9
Gini coefficient, expenditures side	0.396	0.380	0.388	0.372	0.356	0.361	0.375	0.315	0.298	0.292	0.309
Share of population living below the threshold of \$2.15 as per PPP (spending per adult equivalent)	n.a.	45.00	32.30	21.00	11.50	11.40	14.40	13.20	n.a.	n.a.	n.a.

Source: National Bureau of Statistics of Moldova, Ministry of Economy of Moldova and UNDP Report on MDG in Moldova, 2010.

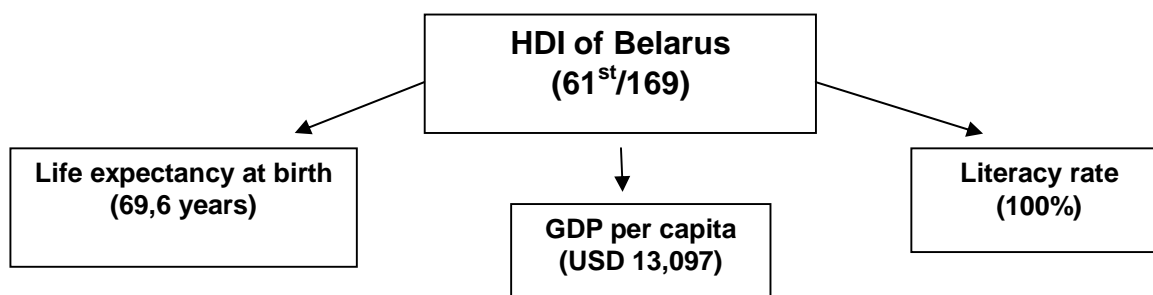
Social environment and living standards in Belarus

By Irina Yeremeyeva

Belarus has established its own model of socially-oriented market economy that emphasizes the well-being of each person, their educational and cultural development, spiritual and physical health and safe social environment.

According to the UN Human Development Report 2010, Belarus ranks 61st among 169 countries of the world in the Human Development Index (HDI) belonging to the high development group of countries. HDI represents a definition of well-being and shows a composite measure of three basic dimensions of human development: health, education and income (figure 1).

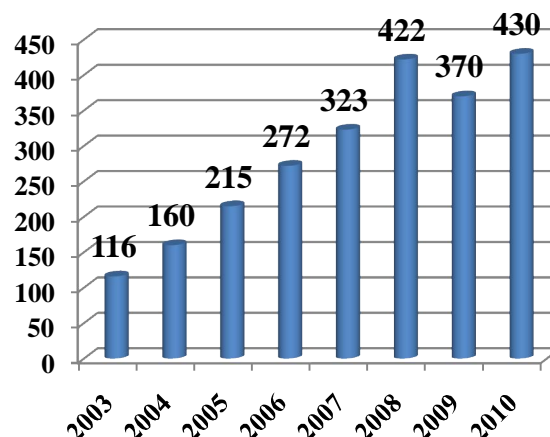
Figure 1 HDI indicators of Belarus



According to the figure the life expectancy at birth in Belarus is 69,6 years (men – 64, women – 74). The adult literacy rate, which in Belarus like in the developed countries, is close to 100%. The GDP per capita is USD 13,097. Belarus left behind all CIS countries, which are ranking as follows: Russia – 65th, Kazakhstan – 66th, Azerbaijan – 67th, Ukraine – 69th, Armenia – 76th, Turkmenistan – 87th, Moldova – 99th, Uzbekistan – 102nd, Kyrgyzstan – 109th, Tajikistan – 112th.

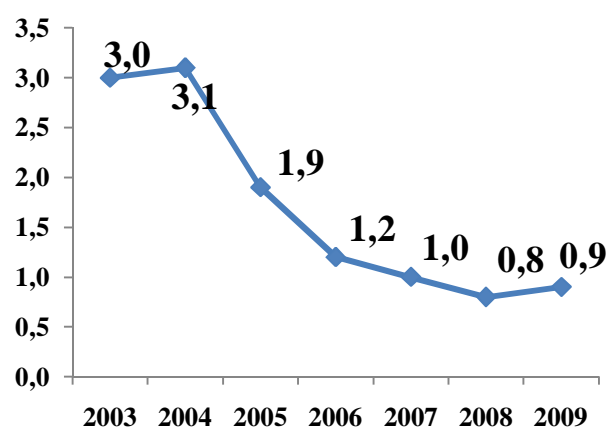
The measures undertaken in recent years have helped reduce the number of low-income families. In 2009, the number of people whose income was below the minimum living wage accounted for slightly over 6% of the population. It is important that the general improvement of living standards has not brought about significant income disparities. Over the last years the ratio of richest 10% to poorest 10% has not changed and is among the lowest in the CIS, which attests to economic and social stability. The nominal monthly wage in Belarus is average for the transition countries (figure 2).

Figure 2 Nominal monthly wage, USD



The situation in the labour market was characterised by stability of its main tendencies and a rather low and stable level of registered unemployment (figure 3).

Figure 3 Unemployment rate as against economically active population, %



Source: data of the National Statistics Committee of Belarus

The past years have seen substantial progress in many aspects of human development and living standards in Belarus. Most Belarusian people today are healthier, live longer, are more educated and have more access to goods and services. However, Belarus faces several challenges, a number of which have global or regional dimensions:

- Like many other European countries, Belarus has a negative population growth rate and a negative natural growth rate (figure 4).

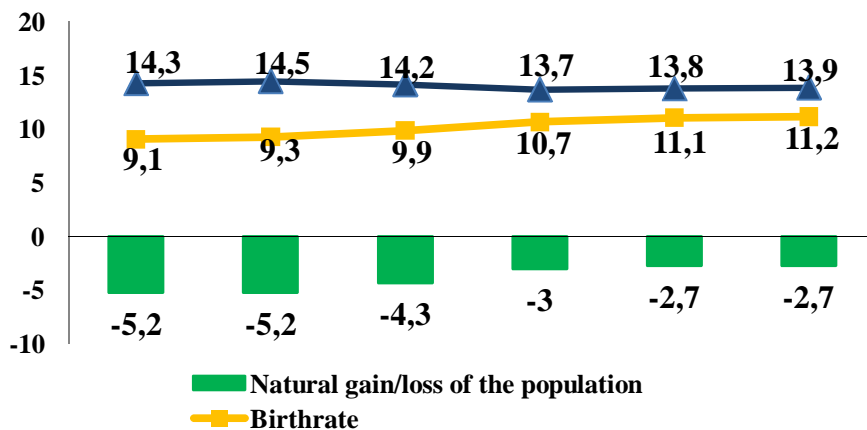


Figure 4 Birth rate, mortality and natural increase in the population in Belarus (2004–2009), per 1000 people

- The population is growing older, and by the year 2050, the majority of the population will be over the age of 50. Even nowadays the pension security programme is the biggest one in Belarus covering a significant part of the population in Belarus. About 2.5 million people (almost every fourth Belarusian) depend on retirement benefits which account for 10% of the GDP. Retirement benefits are financed with the help of payroll contributions of more than 4.5 million people currently employed in the economy.
- After the Chernobyl accident, the affected areas are among the poorest in the country. Selected rehabilitation of the region continues, absorbing significant budget resources. Water supply contamination is widespread and flooding a permanent threat. The areas affected by the Chernobyl disaster have the highest rates of poverty incidence.
- There are some challenges for the future of the Belarusian educational system. First, the gap between the quality of education in urban and rural areas may increase as population decrease

(together with decrease of the children's share) lead to closing and consolidating of schools, which can negatively affect the provision of education. Second, the quality of teachers and teaching should be increased and teachers' shortage in rural area needs to be eliminated via creation of 'right' incentives for them. Third, the system of vocational training need to be better adapted to the labour market needs. Finally, there is a problem of underdevelopment of rural areas of Belarus, and the continuity of differences in the level of living, employment opportunities, and access to various services between the centre and the peripheral areas.

Conclusions

Thus we can draw the conclusion Belarus should focus on further efforts aimed at stabilization of standards of living and creation of conditions for development of human potential. To achieve this goal it is necessary to create conditions and possibilities to all able-bodied citizens to earn money for satisfaction of human needs; provide full employment on the basis of job creation, especially in a private sector of national economy; create a flexible system of personnel training and retraining; raise of real money incomes of the population and the level of provision of pensions; reduce the level of lower-income strata; raise the social protection; rationalize the system of privileges; improve the social service and etc. Such reforms will improve the social environment and living standards in Belarus.

In 2011 the Belarusian government laid down the aim to enter into the number of the first 50 countries of the world with the highest index of human development. The country has counted on activation of the business, use of the best world experience for increase of managing efficiency in all branches and enterprises. On the basis of forward growth and modernisation of national economy, the incomes of the population and quality of life will increase.

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