

**U.S. POLICY IN CENTRAL ASIA: BALANCING  
PRIORITIES (PART II)**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND CENTRAL ASIA  
OF THE  
COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES  
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## **U.S. POLICY IN CENTRAL ASIA: BALANCING PRIORITIES (PART II)**

**THURSDAY, APRIL 26, 2006**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND CENTRAL ASIA,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:54 p.m. in room 2255, Rayburn House Office Building, Hon. Thaddeus McCotter presiding.

Mr . MCCOTTER. I call this meeting to order. We apologize for the delay. We were voting.

I would like to express the sentiments of the Chairwoman Ms. Ros-Lehtinen, who was called home to Florida for a family emergency, but could not be here.

At this point, I would like to introduce the witnesses. We have the Honorable Richard A. Boucher, Assistant Secretary for South and Central Asian Affairs; Mr . Drew W. Luten, acting assistant administrator, and Mr . James MacDougall, Deputy Assistant Secretary, U.S. Department of Defense on panel 1. On panel 2, we have Ms. Paula Schriefer, Director of Programs, Freedom House, Ms. Elizabeth Dugan, vice president, International Republican Institute, and Ms. Martha Brill Olcott, Senior Associate, Russian and Eurasian Program, Carnegie Endowment for International Peace.

With that said, I would like to begin with the panel.

### **STATEMENT OF THE HONORABLE RICHARD A. BOUCHER, AS- SISTANT SECRETARY FOR SOUTH AND CENTRAL ASIAN AF- FAIRS, U.S. DEPARTMENT OF STATE**

Mr . BOUCHER. Thank you, sir. Mr . Chairman, thank for having us today. And if I can I have got a longer statement I would like to be entered into the record, if I could give you a brief version of the remarks?

Mr . MCCOTTER. Without objection, I would like to have your remarks and all witnesses, if they have prepared remarks, entered into the record as well as those of Chairman Ros-Lehtinen.

Mr. BOUCHER. Thank you, sir. This region is very strategically important to the United States. We are looking to support the development of fully sovereign, democratic and prosperous nations in Central Asia who cooperate with the United States and cooperate with one another to advance regional security and stability. The strategy rests on three integrated pillars: Security cooperation,

commercial economic and energy interests, and political and economic reform.

We see the three pillars as mutually reinforcing. General stability, in our view, requires a process of democratic change, and stability, in turn, provides for economic development and prosperity. Thus we are determined to pursue all three sets of interests in a balanced way. The people of these countries deserve choices and be opportunities so they can exercise their independence, not by relying on one market or power but by having a variety of options. Simply put, our policy is to help them have options.

The opening of Afghanistan has transformed that nation from an obstacle that separated south and Central Asia into a bridge that can connect the two, and that, in turn, opens up new and exciting possibilities. Our efforts to integrate south and Central Asia are aimed at helping the countries in the region prosper through trade, communications, and people to people contact. U.S. assistance is essential to achieving these policy goals. We are making an effort to think more regionally about our assistance efforts by increasing our regional allocations of Freedom Support Act funding and of our economic support fund.

In fiscal year 2006, the U.S. Government has budgeted approximately \$170 million in assistance to Central Asia, focusing on building civil society capacity, promoting economic and democratic reform, and as I said, promoting regional security and regional integration. All the countries of Central Asia have as you know provided valuable support to Operation Enduring Freedom in Afghanistan, whether it is through over flights or refueling supports or, in some cases, basic arrangements.

In turn, our military assistance programs including international military education and training, have been essential tools in helping them modernize their forces and become interoperable with NATO partners. We are also actively working with all five governments as well as Afghanistan to put in place safeguards against trafficking and weapons of mass destruction and against trafficking in narcotics which is one threat to the region.

The second set of policy priorities in Central Asia involves energy and commercial interests. One of our leading objectives is to fund greatly the expanded Afghan power grid with connections to energy sources in Central Asia. It is a winning solution for all of them, providing much needed energy to Afghanistan, serving as a major source of future revenue for countries like Tajikistan and Kyrgyzstan. And we hope eventually expanding to the north into Kazakhstan and to the south down into Pakistan and India to really tie the power grids together of the region.

A third pillar is promoting freedom through democratic reform. Our assistance programs support democratic and economic reform in Central Asia and continue to yield positive results in a challenging environment. We are helping to create better business environments, to reform education to bolster independent media, to encourage the rule of law, develop civil society, improve health care, fight corruption, develop democratic institutions, and support small and medium size enterprises. All these things contribute to the diversity of the society, contribute to a more open society, and contribute to economic growth.

Fundamental to all this is education. We place special emphasis on education. People feel deeply about the need for education in order to build a better future, and supporting education is perhaps one of the best ways we can strengthen and keep our relationships with the people, even when government-to-government relationships get rocky.

I would like to close by saying that of all the things I have just spoken about works toward a vision that Secretary Rice has articulated for a stable and democratic Central Asia that cooperates between its neighbors and cooperates in a broader region for the mutual benefit of all of us. These policy objectives are ambitious, but we cannot afford to fail. We know the threats of terrorism, of drugs, of trafficking, of weapons of mass destruction in this region. It is important that we succeed and we look forward to working with you in this very important effort.

Mr. McCOTTER. Thank you.

[The prepared statement of Mr. Boucher follows:]

PREPARED STATEMENT OF THE HONORABLE RICHARD A. BOUCHER, ASSISTANT SECRETARY FOR SOUTH AND CENTRAL ASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Madam Chairman and Members of the Committee: Thank you for inviting me here today to talk with you about our policy in Central Asia. I would like to briefly discuss the challenges we face and how we plan to overcome them in this strategically important region.

The United States supports the development of fully sovereign, democratic and prosperous nations in Central Asia, cooperating with America and with one another to advance regional security and stability. Our strategy rests on three integrated pillars: security cooperation; our commercial and energy interests; and political and economic reform. We see these three pillars as mutually reinforcing. Genuine stability, in our view, requires a process of democratic change, and stability, in turn, provides for economic development and prosperity. Thus, we are determined to pursue all three sets of interests simultaneously in a balanced way. The people of these countries, strategically and individually, deserve choices and opportunities so that they may exercise their independence—not by relying on one market or power, but by having a variety of options. Our policy is to help them have options.

The recent transfer of responsibility at the Department of State for the Central Asian states into our new Bureau of South and Central Asian Affairs has provided a fresh perspective to our view on how these countries fit into the broader region. We have long sought to support efforts among these states to enhance regional cooperation in trade, energy and border security. Progress has been spotty, and at times has moved in reverse, due to border disputes or the unilateral imposition of border controls and restrictive trade regimes. Yet I am convinced that we are now seeing a new paradigm take shape, helped by a shift in the region's strategic landscape. The opening of Afghanistan has transformed it from an obstacle separating Central from South Asia into a bridge connecting the two. And this in turn opens exciting new possibilities.

The Central Asian states recognize that it is very much in their long-term economic and security interests to build linkages to the south that complement their existing ties to the north and west. They are used to conducting foreign policy based on the assumption that "bad things"—drugs, terrorists, instability—come from the south, and must be stopped. But now, while these threats remain, Central Asians are increasingly looking south for trade partners, export markets and opportunities for security and law enforcement cooperation.

Last October, when Secretary Rice visited Kyrgyzstan, Tajikistan and Kazakhstan, she observed that their citizens see Afghanistan as a part of Central Asia. They understand they have a huge stake in Afghanistan's future, just as we do. They understand that a stable Afghanistan, anchored in the broader region, will be good for their own future stability. And they see the potential economic benefits of reaching new markets to the south, in Pakistan and India.

When I attended a conference on trade and development in Greater Central Asian in Kabul last month, I heard the same message and saw the potential for the Central Asian states to help break Afghanistan out of its geographic isolation and give it access to global markets. Our goal is to revive ancient ties between South and

Central Asia and to help create new links in the areas of trade, transport, democracy, energy and communications. At the same time, we seek to preserve and enhance the ties of Central Asian countries to Europe, especially through organizations like NATO and its Partnership for Peace (PfP) and the Organization for Security and Cooperation in Europe (OSCE) as well as the important interests Japan has in Central Asia. While we seek to expand the new relationship between Central and South Asia, we also recognize the well-established historical, cultural and linguistic ties between the countries of Central Asia and the rest of the former Soviet Union, including Russia and the growing relationship with China. In short, our efforts to connect South and Central Asia are aimed at helping all countries in the region to prosper through trade, communications, and people-to-people contacts. Prosperous countries that trade and share ideas are more likely to be stable, peaceful, and less vulnerable to the call of extremism.

#### THE ROLE OF U.S. ASSISTANCE

To ensure a democratic and peaceful future for Afghanistan, we must address the dual challenges of narcotics trafficking and economic development. Unless we look for regional solutions to these challenges, the possibility exists that the Afghan economy will remain reliant on drugs and foreign assistance. To prevent this, we need to focus on building a sustainable economic system integrating Central and South Asian markets.

Central Asia faces numerous threats to its stability, including Islamic extremism, a population that remains poor and has little economic opportunity, the post-Soviet legacy of authoritarianism, public perceptions of injustice, and high levels of corruption. As a consequence, nurturing both economic and democratic reform in the region is difficult, even daunting. Furthermore, the repressive and backward-looking authoritarian regimes in Turkmenistan and Uzbekistan may further challenge our efforts to integrate the region and encourage reform and development.

March 24 marked the one-year anniversary of the "Tulip Revolution" in Kyrgyzstan. Nine months ago, the Kyrgyz people held an election that, while failing to meet international standards, was judged by many to be the freest and fairest in Central Asia's modern history. Since then, the people of Kyrgyzstan have worked hard to consolidate the gains of their democratic experiment. Democratic institutions remain fragile, however, pending constitutional, judicial and other reforms critical to ensuring the people of Kyrgyzstan overcome the challenge of organized crime and corruption to achieve democratic stability.

Kazakhstan, an economic success story, is rapidly becoming one of the top energy-producing nations in the world. We look to Kazakhstan to be a true leader in the region by further advancing democratically, together with continued progress on economic development and infrastructure investment.

U.S. assistance is essential to achieving our policy goals in Central Asia and is designed to address threats to stability while promoting long-term economic and democratic reforms. We are making an effort to think more regionally about our assistance efforts by increasing our regional allocations of Freedom Support Act funding and our Economic Support Funds, and we should focus more on agriculture, and other projects that serve people in the region directly.

In order to support foreign policy goals in this quick-changing environment, we continuously evaluate our assistance strategies, adjusting programs to fit changing realities, and working to ensure that our programs are cost-effective. In Fiscal Year 2006, the U.S. Government has budgeted approximately \$170 million in assistance to Central Asia, focusing our efforts on building civil society capacity, and promoting economic and democratic reform and institutions. We also actively promote regional security through non-proliferation, counter-terrorism, and counter-narcotics cooperation.

#### *Security Cooperation*

All of the countries of Central Asia have provided valuable support to Operation Enduring Freedom in Afghanistan through over-flights, refueling support, and, in some cases, basing arrangements. We especially appreciate Kyrgyzstan's support for the Manas Airbase to support Coalition operations. U.S. military assistance programs such as International Military Education and Training and Foreign Military Financing, have been essential tools in modernizing the regions' military forces and creating NATO-interoperable partners.

Central Asia is a geographic crossroads and therefore an attractive potential route for trafficking in weapons of mass destruction, missiles and other related technologies. We are actively working with all five governments as well as Afghanistan to put in place safeguards against such trafficking. Since their independence, the countries of Central Asia have also been an integral part of the United States' non-



proliferation strategy. In fact, Kazakhstan was one of the first countries included in Nunn-Lugar Counter-proliferation assistance, and their cooperation with the United States is a benchmark.

We are pleased that most of the countries of Central Asia have endorsed the Proliferation Security Initiative, providing a strong deterrent to the proliferation of weapons of mass destruction. The Departments of State, Defense, and Energy provide nonproliferation assistance in Central Asia that engages former weapons experts in transparent, sustainable and cooperative civilian research projects. We also help deliver basic training and equipment to border guards and customs officials to detect nuclear materials transit and secure borders. In Afghanistan, we are developing the Border Management Initiative that will partner with the Government of Afghanistan and other international donors to develop integrated border facilities which will improve border security and increase government revenues from customs fees.

In addition, we are working multilaterally to stop the flow of narcotics from Afghanistan through Central Asia to markets in Russia, Europe and beyond. The Central Asia Regional Information Coordination Center, being established in Kazakhstan, will play a crucial role in the fight against narcotics trafficking. Throughout the region, we have funded the construction of new border crossing checkpoints, including most recently two in Turkmenistan on the Iranian and Afghan borders, respectively.

In Tajikistan we have a good partner in the fight against illicit narcotics. According to the United Nations Office on Drugs and Crime (UNODC), Tajikistan boasts a very high narcotics seizure rate—the government seized over 2,300 kilograms of heroin and 1,100 kilograms of opium in 2005. Since the withdrawal of Russian Border Forces from the Tajikistan-Afghanistan border last year, we have intensified our assistance efforts with European Union partners to build and equip a network of outposts on that border and to ensure the border troops receive training, equipment, and salaries to do their jobs. In January of this year, with the assistance of our military forces in the region, we provided emergency assistance to Tajik border forces guarding the Afghan border during the long, cold winter. These efforts, together with assistance to the drug control agencies in Tajikistan and Kyrgyzstan, are bolstering the capability to interdict traffickers of illicit materials and have already yielded positive results.

#### *Regional Integration*

The second set of our policy priorities in Central Asia involves our energy and commercial interests. To advance regional economic development and integration, we would like to have a strategic dialogue with the countries of the region, including Afghanistan. In partnership with multilateral development banks and other donors—we want to help build new links among the countries of the broader region and connect them more closely to the rest of the world. One of our leading objectives is to fund a greatly expanded Afghan power grid, with connections to energy sources in Central Asia. It's a winning solution for both sides, providing much-needed energy to Afghanistan and serving as a major source of future revenue for countries like Tajikistan and Kyrgyzstan.

Our vision includes new energy routes that will ensure the next generation of South and Central Asian entrepreneurs have access to the resources they need to prosper. We want to give South Asians access to the vast and rapidly-growing energy resources in Central Asia, whether they are oil and gas in Kazakhstan and Turkmenistan, thermal power in Uzbekistan, or hydropower in Tajikistan and Kyrgyzstan. This vision is within our grasp. Within the next few years, we expect to see private investment lead to the establishment of a 500 kilovolt power line transmitting much-needed electricity from Central Asia across Afghanistan to Pakistan and India.

Our assistance can foster inter- and intra-regional energy trade, investment, and competition through technical assistance and coordination with relevant international financial institutions. Likewise, diversification of Central Asian economies and the growth of small- and medium-size enterprises outside the energy sector can help create new jobs in the region to extend prosperity. When possible, assistance programs should increasingly incorporate regional links, whether the focus is roads, energy, education, or even training exchanges to include participants from neighboring countries.

Through diplomacy and assistance, we are already doing much to realize this vision. Afghan road improvements have dramatically reduced driving times, thus increasing regional trade. Next year's opening of a U.S.-funded \$36.5 million Tajik-Afghan bridge with customs and border security facilities on each side, linked to the Tajik national highway system by a Japanese-funded road rehabilitation project,

will create a safe and reliable ground transportation link within the region. Central Asia has an abundance of existing and potential oil, gas, and electricity sources that the growing economies of South Asia need. Together with other donors, we are exploring ways to export electricity from Central Asia to Afghanistan, Pakistan, and India.

We support establishing multiple, commercially viable pipelines and other new energy transportation routes, because the United States believes that diversification of energy transport routes to and from Central Asia increases stability and energy security, not just regionally but throughout the world. In June, the U.S. Trade and Development Agency will host a forum on the Central Asian electricity sector, which we hope will spur investment and promote further regional cooperation. We are also funding feasibility studies in energy, transportation, and telecommunications, and coordinating with the International Financial Institutions and other donors.

#### *Democratic and Market Reform*

The third key pillar of our strategy for Central Asia is to promote freedom through democratic and economic reform, because long-term stability comes from democratic governments that enjoy the trust of their people and that are accountable to them. To paraphrase President Bush, all people, given a free choice, will choose democracy over tyranny. We actively support democracy and civil society in the region not only because it is the right thing to do, but because it creates conditions that lead to greater political and economic opportunity.

Our assistance programs supporting democratic and economic reform in Central Asia continue to yield positive results in a challenging environment by creating better business environments, reforming education, bolstering independent media, encouraging the rule-of-law, developing civil society, improving health care, fighting corruption, developing democratic institutions and electoral processes, and supporting small- and medium-sized enterprises. At the same time, we emphasize to the governments of Central Asia that repression and a lack of respect for human rights and religious freedom lead to political instability. The OSCE is an important agent for reform in the region, and we have also funded numerous programs in the region through their missions and the Office for Democratic Institutions and Human Rights.

For regional links to flourish and for Central Asian economies to prosper, their governments must redouble their efforts to fight corruption and strengthen the rule-of-law. Ordinary people need to feel that government officials will not use their authority solely to enrich themselves. Similarly, foreign investors must feel confident in the rule-of-law before committing to large and risky ventures. Furthermore, the banking sector must be transparent, and provide access to credit and capital. Encouraging economic freedom means a welcoming investment climate, transparency, and consistent adherence to legal contracts, supported by equitable government enforcement and a strong, independent judiciary. We promote all these reforms with technical assistance to governments that demonstrate their willingness to reform.

#### THE FUNDAMENTAL ROLE OF EDUCATION

A well-educated population is key to freedom and long-term prosperity in Central Asia, and I strongly believe the U.S. can make a major contribution in this area.

Across our region, people feel deeply about the need for education to build a better future. The challenge of assuring that there are adequate, quality schools and colleges that provide needed training is the preoccupation of our friends and of their governments. It is precisely because education is such a deeply held value and deeply felt need that I believe the United States should make it a central element of our regional dialogue.

During my recent trip to the region, I visited the American University of Central Asia in Bishkek, and talked to some of its nearly 1200 students. I was impressed with what I saw. The school is a model of excellence for the region and I am proud that the United States was a key player in its founding and growth. Our support for the school dates back to 1993 and includes faculty development, administrative training, and financial support including a \$10 million endowment. The State Department also provides full four-year scholarships for approximately 17 students from Turkmenistan to attend college. Supporting education is perhaps one of the best ways to strengthen and keep our relationships with the people even when government-to-government relationships may get rocky.

We would like to build on this success story by extending our educational partnerships to elsewhere in the region. For example, we would like to see some of our friends in South Asia working with our Central Asian friends in the development of a regional business school or a regional journalism program. Such programs could attract students and faculty from across the region to develop skills and connections

that will serve them in their home countries. In addition, there are tremendous opportunities to support training for Central Asia's current and future government and business leaders in the premier education institutions of Pakistan and India. USAID is already developing a scholarship initiative to do exactly this, which is not only cost efficient but has tremendous potential to create links that last literally a lifetime.

Another model worth citing is the "Bolashak" exchange program sponsored by the government of Kazakhstan that sends 3,000 young Kazakhs a year to study abroad. This program, administered by an American non-governmental organization with broad experience in organizing academic exchanges with the United States, provides an example of merit-based selection and a commitment to the country's future that will hopefully be emulated by other Central Asian nations.

There are other possibilities as well. The important point is that there is a serious need for more education in Central Asia. The people of the region know this, and we intend to work with them on this challenge.

#### COUNTRY-SPECIFIC CHALLENGES AND OPPORTUNITIES

##### *Kazakhstan: Regional Anchor*

The United States' strategic partnership with Kazakhstan has gained momentum over the past year with the visits of Secretary Rice to Astana last October and by Agriculture Secretary Johanns and Energy Secretary Bodman this year. We expect that Vice President Cheney's trip to Astana next month will further elevate our strong relations and pave the way for enhanced cooperation. Having undertaken extensive economic reforms, Kazakhstan has an opportunity to achieve stability by upholding standards of democracy and human rights. Kazakhstan can also play a leading role as an investor in regional infrastructure projects, including in Afghanistan. We are also working closely to ensure that Kazakhstan has multiple channels to bring its energy resources to world markets.

Kazakhstan is emerging as a world leader in oil and gas production. U.S. companies have invested heavily there and would like to do more. Transport of energy resources to markets remains a challenge; we are working on securing the flow of oil from Kazakhstan's North Caspian fields via tanker to the Baku-Tbilisi-Ceyhan pipeline and encouraging Russia to agree on terms to expand the Caspian Pipeline Consortium pipeline. Kazakhstan, as well as Turkmenistan, could also be a new source of natural gas for European markets, particularly if a trans-Caspian gas pipeline were built.

Kazakhstan still has major challenges to meet in democratic reform, as illustrated by its December 2005 presidential election, which fell short of OSCE standards. We have encouraged Kazakhstan to lead a new regional "corridor of reform" by working swiftly to implement democratic and additional economic reforms at home. We look forward to increased cooperation on democracy, including implementing OSCE recommendations for electoral reform.

We support Kazakhstan's goal of joining the World Trade Organization (WTO) and have been working with the Kazakhstani government toward that end. WTO membership will support Kazakhstan's long-term growth by lowering barriers to trade and investment and establishing a system based on internationally recognized rules.

Our assistance to Kazakhstan seeks to diversify its economic growth, both geographically and industrially, build momentum on democratic reforms. Our security and law enforcement programs continue to support Kazakhstan's partnership in the Global War on Terror and improve its abilities to fight narcotics trafficking and protect its borders. Our energy and water programs support the development of regional energy markets and water-sharing.

##### *Kyrgyzstan: Reform for Democratic Stability*

Kyrgyzstan continues to have strong potential already embarking on a new era of democratic change, Kyrgyz leaders need to fulfill the promise of their "Tulip Revolution" last March and the presidential election last July through bold democratic and economic reform. Primary in importance are the twin problems of corruption and organized crime. The government must tackle these head-on if it wants to maintain credibility with its newly-engaged population and build a fully-thriving democracy. Additionally, we must assist the government in responding to the aspirations of Kyrgyz citizens for a better justice system and more economic opportunities, which will further help Kyrgyzstan to stabilize and better institutionalize their progress and reforms.

Our assistance has been timely and targeted since March 2005. We initiated several new programs, including the U.S. Department of Treasury's economic growth

advisor to address emerging reform opportunities and provide much-needed technical assistance to the government. Similarly, the Millennium Challenge Corporation has selected Kyrgyzstan as a Threshold Country—the first to date in Central Asia. We are currently working with the government to develop a plan to combat corruption and implement wide-ranging judicial reforms, including the courts, police, and prosecutors. We also continue to support independent media, human rights protections, civil society, and electoral reform.

Again, we look to our regional partners for assistance, and plan to encourage India, not only as a good neighbor, but also as a pillar of stability and the largest democracy in the world, to consider providing parliamentary assistance, as they are currently doing in Afghanistan. The OSCE is also an important ally in helping Kyrgyzstan strengthen its democratic institutions, implement electoral reform, and deepen the rule-of-law. Furthermore, we need to increase the range and scope of the American University of Central Asia, which already enrolls more than 80 Afghan students, and establish it as a regional center of academic excellence.

We applaud the government of Kyrgyzstan's current efforts and are committed to working with the Government and citizens of Kyrgyzstan to help advance the reforms necessary to participate. There is no question that we and all the countries of the broader region have a great stake in Kyrgyzstan's success.

*Tajikistan: Civil War No More*

Tajikistan has transformed itself from being a civil war-ravaged state to having a stable country with strong economic potential. Today, Tajikistan is attracting outside investment, especially in the field of hydropower. Critical to fostering this positive arc of development is to continue to support democratic and economic reforms.

Our assistance program to Tajikistan promotes democracy and the rule-of-law, strengthens security and law enforcement capabilities, develops the investment climate, and improves social services. In response to last year's transfer of responsibility for the Tajik-Afghan border from the Russian military to the Tajik border guards, we are supporting a large program to help Tajikistan defend its borders from the transit of weapons of mass destruction, illicit drugs, trafficked persons, and potential terrorists.

Tajikistan is in urgent need of investment in order to address its staggering poverty. Increasingly the Tajiks look toward Afghanistan as a land bridge to Indian Ocean ports and South Asian markets. We seek to stimulate such regional and intra-regional cooperation by working with International Financial Institutions and our European, Japanese and South Asian partners.

*Uzbekistan and Turkmenistan: Sliding Backwards*

In Uzbekistan and Turkmenistan, we are dealing with difficult regimes that are holdovers from the obsolete model of Soviet central control and repression. In these very challenging environments, we must find creative ways to continue supporting the people who deserve the political choices and economic opportunities that their governments do not provide. We are giving crucial financial and moral support to the beleaguered non-governmental organizations and individuals who aspire to build civil society in these difficult environments.

While doing this we need to maintain ties in areas of importance to us, such as improving border controls to combat drug trafficking and enhancing detection of nuclear material to prevent its use by terrorists. We also seek to strengthen our exchange programs where we can. Even though governments in both Turkmenistan and Uzbekistan actively attempt to thwart and stop these programs, it is important to provide these crucial educational opportunities to the talented students and professionals there.

Turkmenistan is dominated by president-for-life Saparmurat Niyazov and the political and economic reform has been minimal or negative since independence. The government continues to commit serious abuses and its human rights record remains extremely poor. Opportunities for education and employment are in severe decline. We are pursuing a policy of focused engagement and careful cooperation with the government.

We will continue to press the government for progress on freedom of religion, assembly and movement for its citizens. Simultaneously, we must provide the people of Turkmenistan with tools for progress and eventual reform, with special emphasis on educational and professional exchanges through non-governmental organizations and exchanges to the United States.

In Uzbekistan we have continued to press for a broad relationship that includes attention to democracy, including human rights and political reform, security cooperation, including on terrorism, and economic cooperation, and we have made clear at the highest levels of the Government of Uzbekistan that our relationship

should be based upon progress on all of these fronts, as laid out in our 2002 Strategic Framework Agreement. In response to the tragic events of Andijon in May 2005, we have consistently called for an independent, international investigation into these events. We also undertook an immediate review of U.S. assistance to the central government, canceling many military, border security, and economic reform assistance programs and limiting others. Approximately \$3 million of these funds were reprogrammed to support democracy and human rights programs. Unfortunately, the Uzbek government has so far refused to allow an independent investigation into Andijon, and has chosen to close down non-governmental organizations, independent media sources, and other civil society organizations. We continue to urge the Government of Uzbekistan to reverse its current path and to embrace reform as the only way to achieve long-term stability and to help realize the aspirations of its citizens.

U.S. assistance programs in Uzbekistan focus on working directly with the people of Uzbekistan on human rights, micro-credit lending and agribusiness development, health and education reform, water use management, and community development. The Government of Uzbekistan has hampered the delivery of assistance by implementing banking regulations that slow or prevent the transfer of funds to non-governmental organizations. Many international and local non-governmental organizations have lost their accreditation to work in Uzbekistan, and many others have been harassed.

Nevertheless, we should continue to engage the government of Uzbekistan where it is in our own interest to do so. Security, non-proliferation, narcotics smuggling, and law enforcement programs, when possible in the current political environment, advance key U.S. interests by addressing improved treatment of suspects and detainees, trafficking in persons and weapons, and the proliferation of nuclear and biological materials and expertise.

#### CONCLUSION: ASSISTANCE SUPPORTING A REGIONAL VISION

The Secretary has articulated a vision for a stable and democratic Central Asia, cooperating between its nations and with the broader region for mutual benefit. In this future Central Asia, students and professors from Bishkek and Almaty can collaborate with and learn from their counterparts in Karachi and Kabul, legitimate trade can freely flow overland from Astana to Islamabad, facilitated by modern border controls, and an enhanced regional power grid stretching from Almaty to New Delhi will be fed by oil and gas from Kazakhstan and Turkmenistan and hydropower from Tajikistan and Kyrgyzstan.

Our policy objectives for Central Asia are ambitious, but we can not afford to fail. As we pursue our security interests, commercial and energy interests, and democratic and market reform simultaneously, Central Asia can re-establish itself as a commercial and cultural crossroads with greater links to South Asia. Our support to this region is a key ingredient to Afghanistan's stability as well, as to our own security.

Madame Chairman, members of the Committee, thank you again for this opportunity to discuss this important region. I stand ready to take your questions.

#### **STATEMENT OF MR. DREW W. LUTEN, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. LUTEN. Thank you, Mr. Chairman. The past 15 years have yielded significant results in areas of opportunity in Central Asia. USAID's activities are contributing to the creation and growth of small businesses, the development of civil society, reductions in the spread of infectious disease and advances in health reform, improve basic education in efforts to lessen the potential for human rights abuses.

Nonetheless, many challenges persist. Within the materials that we have provided there are a number of charts that we produce and refer to in planning assistance. They illustrate the difficult challenges that the countries face. And I just would mention a few of them that indicate the nature of the problems, the nature of the challenges. One of these charts on economic and democratic re-

forms, it is that one, shows that in the economic area while Kazakhstan and Kyrgyzstan have done relatively well in adopting market-oriented economic reforms, the other countries have not. With respect to democratic reform, all of the countries lag significantly in the policies that they have adopted in comparison to the other countries of the former Soviet bloc and Europe.

Also economically, one of the challenges that they face is getting their economies back to a level of productivity as it stood in 1989. Real gross domestic product in these countries, in Kazakhstan, Uzbekistan and Turkmenistan, which are all energy wealthy, only rates the level of GDP that they had in 1989 in the last 2 or 3 years and the other countries are far behind still.

The business environment in each of the countries is weak, not surprisingly cumulative direct foreign per capita investment is low. One of the things that is most troubling in terms of the challenge that these countries face and that we face in thinking about how we can support them are the declining health indicators across a number of the subjects.

USAID sees its role in supporting transition and development of these countries as one that supports the larger interests of the United States. Assistance that helps counter-authoritarianism and economic stagnation, each of which provide the fuel for domestic unrest, religious extremism and terrorism, is critical to protecting United States interests in Central Asia and the nearby countries as well.

We are at the point now where we are developing new country strategies for the five central Asian republics and as we do this in line with the vision that the Secretary has articulated, we will be looking for opportunities to expand regional integration with south Asia, particularly with respect to energy markets, but also with trade facilitation and health networking is also a possibility.

As Secretary Boucher indicated, the work that we do in various areas is interrelated. So in our case, the support for the expansion of both political and economic freedom and for better governance go hand in hand, along with support for the institutions and experiences that make them possible. I would offer just a couple of comments that in the democracy sector while there have been challenges, particularly greater challenges in some of the countries, Uzbekistan and Turkmenistan are hard cases at present.

In general, over the past 15 years, in large part, due to USAID's efforts and the efforts of partners that we support, civil society which was virtually unknown 15 years ago has grown and become much more sophisticated across the region.

In the economic sector, Kazakhstan has been the best performer and our program there has reached a new phase such that our development assistance or economic development is going to be shared. The government of Kazakhstan is going to share in the cost of that assistance and collaborate with us jointly in the design of that assistance. It is an important precedent. Then in the health and education sectors, we are not only helping with systemic reforms but we are working on programs that combat the threat of HIV/AIDS and helping the countries' plan for prevention of Avianinfluenza, trying to help it not become an endemic in poultry.

There have been many successes and there are certainly many areas of opportunity. There are many areas of challenge as we go forward. We will be focusing our resources on both opportunities and challenges. And we look forward to working with the Department and other parts of the administration and the Congress in looking for opportunities to link both what happened in Central Asia to South Asia and the rest of the region. Thank you.

Mr. MCCOTTER. Thank you.

[The prepared statement of Mr. Luten follows:]

PREPARED STATEMENT OF MR. DREW W. LUTEN, ACTING ASSISTANT ADMINISTRATOR,  
BUREAU FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION.

Madame Chairwoman, distinguished Members of the Committee, thank you for the opportunity to testify on U.S. foreign assistance to the five Central Asian Republics of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan.

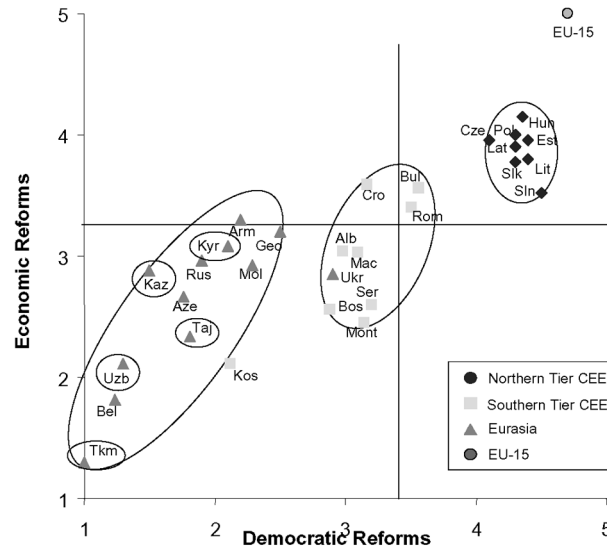
Since the overthrow of communist regimes in Europe and dissolution of the Soviet Union, the U.S. Agency for International Development (USAID) has been charged with assisting the countries of Europe and Eurasia to make the transition from centralized, authoritarian control to sovereign nations governed on the basis of democratic, free-market principles. When this Committee crafted the FREEDOM Support Act (FSA) and Support for East European Democracy (SEED) Act, it was with the goal of helping these countries develop the technical basis and managerial skills needed to redirect their resources toward open and participatory political and economic systems. USAID assistance has helped countries make tangible progress across Europe and Eurasia, including in the five republics of Central Asia.

The past fifteen years have yielded significant results and areas of opportunity in Central Asia. Our activities are contributing to the growth of small business, civil society development, reductions in the spread of infectious disease and advanced health reform, improved primary education, better management of natural resources, and efforts to lessen the potential for human rights abuses and conflict. Nevertheless, many challenges persist—in developing democracies and promoting respect for human rights, encouraging economic growth, improving health, and increasing the quality of education.

USAID's principal goal within the Europe and Eurasia (E&E) region remains the establishment of functioning, effective democracies with open, market-oriented economic systems and responsive social services. As the following chart demonstrates, we see a correlation between countries' performance in economic and democratic reform in the E&E region. Indeed, the very elements which enable a democracy to function, namely, participatory decision-making, transparency, rule of law, and good governance—are also conducive to a healthy business environment. It should come as no surprise that the highest performers in both of these areas are the Northern Tier states, several of which, namely, the Czech Republic, Slovakia, Hungary, and Poland, have graduated from USAID assistance to become members of the European Union and donor countries in their own right. On the other end of the spectrum are the low performers, comprised almost exclusively of the Eurasian states, of which the Central Asian Republics (and Belarus) occupy some of the lowest ranks. The data underscore the enormous challenges we face in assisting these states to narrow that gap by embracing real democratic and economic reforms.

## Economic and Democratic Reforms in 2005

Figure 1



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2005* (2005), *Freedom in the World 2006* (2005), and EBRD, *Transition Report 2005* (November 2005).

### THE GEOPOLITICAL AND STRATEGIC CONTEXT.

Since the September 11, 2001 attacks on the United States, the geopolitical and security importance of the post-Soviet states of Central Asia has increased markedly. Countering authoritarianism and economic stagnation, which provide the fuel for domestic unrest, religious extremism, and international terrorism, is critical to protecting U.S. interests in the region.

Despite the many differences among these countries, there are some unifying themes of strategic importance to the United States Government:

- *Central Asia's strategic location, between South Asia, China, Russia, and Iran, ensures that its importance will continue to grow in the years ahead.* What happens in Central Asia concerns not only Russia to the north, but also China, its eastern neighbor. Events in Afghanistan, India, Pakistan, Iran, and the broader Middle East are also impacted by developments in the region.
- *Central Asia is a critical source of energy.* Kazakhstan, Turkmenistan and Uzbekistan all boast substantial petroleum reserves. Turkmenistan is the second largest natural gas-producing country in the former Soviet Union. The country also ranks fourth worldwide—after Russia, the United States and Iran—with proven natural gas reserves totaling nearly 100 trillion cubic feet (Tcf). Uzbekistan currently possesses about 600 million barrels of proven oil reserves. Uzbekistan is the eighth-largest producer of natural gas in the world, but most of this is used domestically. Kazakhstan has large oil and gas reserves. Its giant, offshore Caspian Kashgan field is one of the most important petroleum finds in thirty years. The United States, as a significant energy importer, has a vital interest in ensuring that efficient export outlets are developed and that Central Asia emerges as an important source of energy in the years ahead, not just for the United States but for the world market.

### RESOURCE LEVELS AND COUNTRY PRIORITIES.

Despite a growing acknowledgement of Central Asia's strategic importance, USG assistance funding for the region has declined precipitously since a high point in 2002, when Congress authorized major supplemental funding for Central Asia in recognition of its proximity to Afghanistan and pivotal role in the Global War on Terrorism. Indeed, today's funding levels for USAID assistance to Central Asia



(\$73.9 million in FY06) represent a significant decrease from pre-9/11 levels (\$93.8 million in FY01.)

Among the Central Asian Republics, Kazakhstan and Kyrgyzstan are the highest dollar recipients of USAID's assistance, with \$20.1 million and \$22.5 million respectively in FY06. **Kazakhstan** has made considerable progress on economic reform while making inconsistent progress in its commitment to democratic reform. Kazakhstan is strategically important to the United States due to its geographic location and significant resources, growing U.S. investment, and relative openness to trade.

Moreover, in **Kazakhstan**, we are entering a new phase of our development cooperation which involves the Government of Kazakhstan sharing in the cost of USAID managed economic development programs. The \$40 million joint (\$25M USAID; \$15M GOKZ) *Program for Economic Development* calls for even closer collaboration in the formulation, delivery, and monitoring of programs. Aside from the greater impact we hope to achieve with this new approach, we also hope it will strengthen sustainability prospects and help pave the way for Kazakhstan's own development assistance programs.

**Kyrgyzstan**, the smallest of the republics, has distinguished itself through early, consistent, and aggressive economic reform and a commitment to and demonstration of democratization. In March 2005, the people of Kyrgyzstan took to the streets to signal their dissatisfaction with the Government's manipulation of the electoral process; their efforts led to the popular ouster of autocratic President Askar Akayev. While the new Government has been slow to honor its election-year promises, particularly in the areas of anti-corruption, good governance, and constitutional reform, Kyrgyzstan remains the most open of the Central Asian Republics in both economic and political terms. It is important that the U.S. Government support Kyrgyzstan's reform trajectory. To that end, USAID is coordinating closely with the Department of State and the Millennium Challenge Corporation to ensure that our resources are strategically allocated, mutually supportive, and conducive to our shared goal: helping the Kyrgyz Republic to achieve its full democratic, social, and economic potential.

With roughly 64 percent of its population below the poverty line and the lowest GDP per capita in the region, **Tajikistan's** socioeconomic indicators rival those of sub-Saharan Africa. Although still an authoritarian state, Tajikistan's political system remains among the more pluralistic in the region. It is the only country in Central Asia with a legally-recognized Islamic opposition party, one which also holds positions in government. USAID has budgeted \$15.6 million in assistance to Tajikistan in FY06 to support programming that promotes democratic, economic, and health reform and conflict mitigation.

**Uzbekistan**, the largest of the five in terms of population, is important to regional stability due to its central location (it borders each of the republics and Afghanistan) and historic leadership role in Central Asian culture and religious life. Despite early signs of economic progress, the Government of Uzbekistan has backpedaled considerably in its commitment to real economic reform. The central government, led by former Soviet leader Islam Karimov, remains authoritarian.

Relations between the United States and Uzbekistan have deteriorated significantly in the past year, partly as a result of the U.S. call for an independent inquiry into the Government's response to a militant uprising in Andijan in May 2005, which left hundreds of civilians dead, according to reports. While regional sensitivities to U.S. democracy programs were already heightened following Kyrgyzstan's Tulip Revolution in March 2005, the decline in our bilateral relationship post-Andijan has enabled the Ministry of Justice to step up its campaign to force termination of those programs which the host government considers most threatening. These include programs in human rights, civil society development, and support for independent media. Despite these setbacks, USAID will continue to reach out to the people of Uzbekistan, whose support for our work remains unwavering. Meanwhile, we have found ways to continue our programs in such areas as health, agriculture and natural resource management, with limited disruptions. The FY06 budget for Uzbekistan is \$13.1 million, which is aimed at consolidating economic and health reforms while promoting a more open society.

**Turkmenistan** continues to receive the lowest level of funding in the region, \$3.6 million, despite its strategic importance. This level reflects the regime's failure to institute a serious economic reform program and its totalitarian stand. Civil society groups face difficult registration rules and are closely monitored. Government cooperation to reform the health sector nevertheless remains strong and we will continue to push ahead to work with citizens that represent the future generation of leaders.

## USAID ASSISTANCE TO CENTRAL ASIA.

USAID's operations in Central Asia are managed by a Regional Mission headquartered in Almaty, Kazakhstan, with satellite offices in the other four republics and in Kazakhstan's capital, Astana. This approach has proven successful in overseeing five bilateral programs, and interacting with five U.S. Embassies through the mobilization of a wide range of technical expertise that can be applied throughout the region, achieving cost and management efficiencies. It has provided the flexibility needed to respond quickly to events in the region while applying lessons learned in five different programs.

With our current assistance strategy set to expire in early September 2006, USAID is working in close coordination with the Department of State to prepare a new strategy for assistance to the region over the next several years. Unlike the current strategy, which covers all five republics in a single overarching document, the new strategies will be country-specific, reflecting the unique environments and challenges we face in each country. Next month, I will travel to Central Asia to conduct oversight of USAID's programs in four of the five republics and participate in an Interagency Country Assistance Review (ICAR) in Uzbekistan. I would be pleased to offer my preliminary observations with the Committee upon my return and to share with you a copy of USAID's final strategy for Central Asia once it has been approved.

USAID's development strategy for assistance to Central Asia rests on three mutually supportive pillars: (1) promoting a democratic culture; (2) bolstering economic growth and reform; and (3) facilitating social transition through more effective and equitable approaches to health and education.

## DEMOCRATIC REFORM: ACCOMPLISHMENTS AND RESULTS.

USAID's approach to democracy assistance in Central Asia is based on promoting a strong democratic culture. With few indigenous democratic traditions, leadership in all five countries has historically tended towards autocratic and authoritarian methods of governance—with little understanding of citizen participation in political and governance matters. Overtly political civic organizations, political parties, and labor unions all continue to face strong resistance and even periodic repression from most Central Asian governments. Private television and radio stations still face significant degrees of state control and interference—except in Turkmenistan and Uzbekistan, where no such media exist.

Most notably, civil society, virtually unknown at independence, has grown and become more sophisticated throughout Central Asia. Literally thousands of diverse citizen organizations are now thriving, and in some countries, playing increasingly vocal roles in political debates. USAID assistance has also been important in developing the management and technical skills of independent electronic media and in introducing civic education in secondary schools.

Still, the past several years have seen significant backsliding or stagnation in Central Asia on key democracy indicators, such as the respect for a free press, judicial independence, and the conduct of free and fair elections. To meet this challenge, USAID focuses on strengthening civil society; bolstering independent media; protecting human rights; and promoting reform at the local levels. Where possible, we also work on political party development, enhancing the rule of law and elections. USAID's activities in Central Asia increase dialogue between government and citizens by assisting institutions that inform and empower people. Civic organizations and civic advocacy programs provide means to advocate for good governance, accountability, transparency, rights protection, and democratic reforms. USAID focuses on informing and engaging citizens through independent television and radio stations. Lawyers and young people learn about democratic values through reformed legal curricula at law schools, democracy camps, simulated court trials and civic education. Several programs diffuse tensions that could cause conflict through community involvement in local economic development and joint community-local government councils.

Despite some major setbacks, most notably, in Uzbekistan, USAID has achieved important results in its democracy programming in Central Asia. The following represents a sampling of our activities and achievements:

*Civil Society Promotion:*

- To strengthen local NGOs in each of the five republics, USAID's Civil Society Support Program provides training, information, networking opportunities, and professional assistance through a network of civil society support centers. The program awards institutional grants to leading NGOs in specific sectors, and promotes advocacy at the national level. USAID also provides technical

input for the development of a supportive legal network for NGO operations, as well as direct legal advice to NGOs.

*Human Rights & Rule of Law:*

- USAID's ongoing support to local human rights defenders (HRDs) in Kazakhstan, Kyrgyzstan, and until recently, Uzbekistan, provides a critical protection network, technical training and access to legal resources at a time when HRDs are being targeted for questioning, arbitrarily arrested, or detained. Based on this collaboration, HRDs monitor the human rights situation to highlight significant issues and trends. In Kyrgyzstan and Uzbekistan, HRDs have worked with local law enforcement to improve pre-trial detention conditions and address the most important local level human rights concerns.
- In Uzbekistan, USAID's *Open Dialogue* program provides the opportunity for dialogue between law enforcement agencies and human rights defenders and has fostered collaboration on deaths-in-custody cases and forensic investigations. In collaboration with the U.S. Department of Justice, roundtables on issues such as *habeas corpus* have been held around the country.
- In Uzbekistan, Turkmenistan, Kazakhstan and Kyrgyzstan, USAID has helped establish law clinics at local universities to provide *pro bono* legal advice and build practical skills of law students.
- In Kazakhstan, supporting the installation of video and audio court recording equipment in a pilot court to increase the transparency of court proceedings. The judiciary was so impressed with the results that they are planning to expand this system—with their own funds—to more than 100 additional courts.

*Civic Education:*

- USAID's civic education program, active in Kazakhstan, Kyrgyzstan, and Tajikistan, encourages critical thinking skills within a broader framework of principles of good governance, democracy, and civic activism. In addition to supporting textbook development and teacher training in interacting teaching methodologies, the program also provides secondary school students with hands-on experience with democracy through extracurricular activities like student government, local government day and democracy summer camps. More than 100,000 students are reached each year through this program.
- Complementing this work, USAID also supports Street Law programs in all five Central Asian countries, which provide additional training on civic rights and responsibilities. These courses are typically taught by law school students, giving them an opportunity to increase their public speaking and training skills.

*Anti-Trafficking Programs:*

- To help combat trafficking in persons, USAID organizes public awareness campaigns and information hotlines, supports local NGOs that provide services to trafficking victims, and in several countries, we operate shelters for such victims.

*Support for Independent Media:*

- USAID's media initiative, which is active in Kazakhstan, Tajikistan, Kyrgyzstan, and until recently, in Uzbekistan, provides training and assistance to improve the use of modern production technology and management techniques and update journalism quality in both print and broadcast media. In addition, a production fund encourages local programming, and legal advisors provide consultation to media outlets. Under a new initiative, USAID plans to support the broadcast of news and informational programming by satellite to expand access to information across the region.

*Local Government Reform:*

- USAID's work in local government reform in Kyrgyzstan and Tajikistan has resulted in an improved policy environment and strengthened the capacity of local authorities to organize public hearings, undertake strategic and financial planning, and manage public works and fee-for-service municipal enterprises. While Kyrgyzstan is the only country in Central Asia with democratically-elected mayors, Tajikistan has recently approved a strategy for decentralization which would include direct elections for mayors as well.

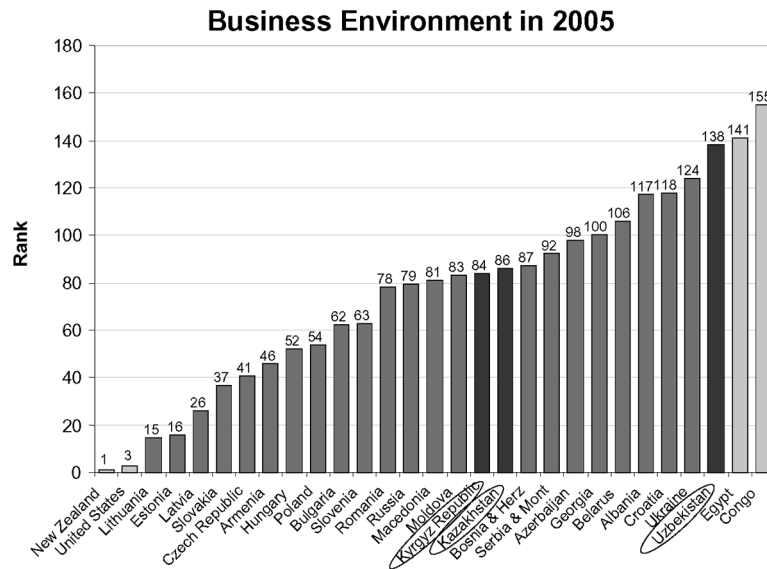
*Elections Assistance:*

- USAID has provided assistance for both parliamentary and presidential elections in Kazakhstan, Kyrgyzstan, and Tajikistan. In Kyrgyzstan, USAID

sponsored both international and domestic election monitoring, efforts to provide checks on the official results, including exit polls and a parallel vote count, the training of poll workers, and the use of indelible ink to prevent multiple voting.

#### ECONOMIC GROWTH AND REFORM: ACCOMPLISHMENTS AND RESULTS

USAID's assistance in economic reform encompasses work in enterprise development; financial sector reform; trade facilitation; microfinance and banking sector reform; commercial law and accounting reform; financial sector reform; and economics and business education. We focus on these areas because in each country improvements in the overall business environment will be important to long-term prospects for economic growth. As the chart below indicates, Kazakhstan and Kyrgyzstan rank relatively low in the World Bank analysis, and Uzbekistan is near the bottom of those countries surveyed. Tajikistan and Turkmenistan are not included in the Bank's survey but can also be assumed to be near the bottom.



World Bank, *Doing Business in 2006* (September 2005). Worldwide scores range from 1 to 155 and include 10 topics: starting a business, dealing with licenses, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

Our results in each of these areas, especially in Kazakhstan and Kyrgyzstan, are impressive:

#### *SME Development:*

- Since 2002, USAID has provided firm-level assistance to improve the competitiveness of over 1900 private enterprises throughout Central Asia. Business managers receive coaching to improve strategic planning, basic financial and management accounting, human resource management, operations and quality management, and market analysis. Results of this assistance has led to measurable increases in sales and productivity gains, expanded market linkages and trade relationships within the region and with neighboring countries including Afghanistan, and increased understanding of fundamental market principles necessary for growth of a thriving and diversified small and medium business sector.

#### *Financial Sector Reform:*

- Financial sector reform in Kazakhstan is one of USAID's major successes in Central Asia. USAID has supported the introduction of corporate bonds, mortgage bonds, warehouse receipts, and other investment vehicles. The corporate bond market introduced in 2000 has grown to \$2 billion in bonds in circulation. Mortgage-backed securities, introduced in 2002, now comprise \$300 million in outstanding mortgage bonds. In partnership with the National Bank

and the Association of Financiers, USAID helped Kazakhstan develop a Law on Credit Bureaus. Adopted in July 2004, the law establishes the legal basis for the first comprehensive credit reporting system in the CIS. With technical assistance from USAID, seven local commercial banks and an international credit bureau operator, Iceland-based Credit Info, recently established the first credit bureau in Kazakhstan. The credit bureau will serve to further strengthen Kazakhstan's financial sector and expand access to finance for citizens and local entrepreneurs.

*Trade Facilitation:*

- USAID provides assistance to governments and businesses in Kazakhstan, Kyrgyzstan, Tajikistan (and until recently Uzbekistan) to modernize their legal and regulatory frameworks for trade administration. This includes help to develop and introduce new Customs Codes that modernize customs procedures in accordance with the Kyoto convention and WTO agreements and principles. USAID has also worked to strengthen the dialogue between Customs and the private sector by supporting the establishment of Consultative Councils, which are used to discuss issues of concern to traders, transporters and other stakeholders.

*Microfinance and Banking Sector Reform:*

- Over the past five years, USAID has provided considerable financial assistance to strengthen the banking and microfinance sectors in four of the Central Asia republics: Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. This assistance has spanned from improvement of financial regulation and bank supervision to bring it in line with international standards, including the establishment of clear legal frameworks for the provision of microfinance and institutional strengthening of commercial banks and microfinance institutions.
- USAID's work in microfinance has led to groundbreaking achievements, among them, the passage of legislation in several countries permitting a stable and consistent base for microfinance activities. Leading microfinance institutions in Kyrgyzstan, and the Kazakhstan Loan Fund were inspired by legislative reform and market prospects—and are now making plans to transform into microfinance banks. The sector has grown in the number and variety of market players. Commercial banks are now increasingly lending to micro and small businesses, which they previously considered too risky and costly. Microfinance institutions are recognized as full market players in the financial systems of these countries; and EBRD, an international financial institution, has even started lending to such institutions.

*Reduction of Business Constraints:*

- USAID provides assistance to governments and businesses in Kazakhstan, Kyrgyzstan, Tajikistan (and until recently Uzbekistan) to modernize their legal and regulatory frameworks for doing business and reduce the burden of government regulations on SMEs. This includes reforms in such key areas as business registration, licensing and permits, government inspections, land site acquisition and real estate construction and development. USAID has also built a large network of both government and private-sector partner organizations that actively tackle regulatory barriers to SME development at the local and national level in Kazakhstan. In the next four years, we are planning to roll out this partnership program to Kyrgyzstan and Tajikistan.

*Commercial Law Reform:*

- In Tajikistan and Kyrgyzstan, USAID trains local judges and attorneys in the interpretation and proper application of commercial laws to promote the establishment of secure property rights, enforcement of contracts, and drafting of basic commercial legislation necessary for the operation of a market economy. For example, in March 2006, the Ministry of Justice launched a new movable property registry in Tajikistan with substantial technical assistance from USAID's Commercial Law Project. Until now, lenders in Tajikistan have been unwilling to give credit against moveable property due to the lack of an efficient and reliable registration system. By increasing security of lending transactions, the registry will help small businesses obtain financing and reduce the interest rates on loans.

*Accounting Reform:*

- Through the implementation of its Certified International Professional Accountant (CIPA) program—the first, internationally recognized professional

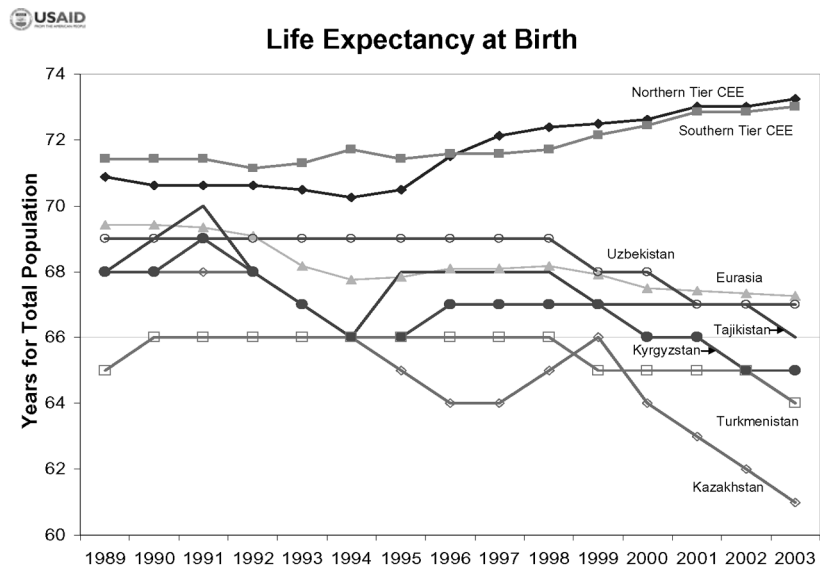
certification for accountants in the Russian language—USAID is helping to promote financial management, transparency, accountability, and professional values. The use of modern management accounting and uniform international standards will improve the competitiveness of the regions' enterprises, allowing them to compete both internationally and domestically. To date, over 54,000 exams have been issued and over 3,900 individuals have earned the entry level Certified Accounting Practitioner (CAP) or CIPA designation in Central Asia.

*Business Education:*

- Business and management education comprises a critical, albeit oft-overlooked, component of private sector development. Such assistance ensures that citizens receive education that is relevant to their participation in a market economy. USAID's Business and Economics Education Program seeks to develop stronger linkages between businesses and universities, enabling the latter to become more flexible and responsive to the market requirements for educated professionals, and to improve career opportunities for graduates in their host countries and throughout the region. USAID funded Junior Achievement Program promotes the development of entrepreneurship and practical business skills at middle grade and high-school level to increase youth participation in the economy.

SOCIAL TRANSITION: ACCOMPLISHMENTS AND RESULTS

Among the least expected consequences of post-communist transformation in Central Asia was a decline in living standards for many and a stark erosion in the stock of human capital. As an example, the following chart depicts the decline in life expectancy at birth in Central Asia as compared to the Northern and Southern Tiers of Central and Eastern Europe; this trend holds for all other indicators in the social sector:



UNICEF, TransMONEE (December 2005).

The evidence is impossible to ignore: rising morbidity and mortality due to infectious disease, weakened life expectancy, high unemployment, low wages, and the outward migration of individuals seeking better opportunities in Russia, where, as migrant workers, Central Asians are regularly subject to discrimination. To mitigate these concerns, our assistance in Central Asia is aimed at establishing viable social systems appropriate to market-oriented democracies. The first challenge is to halt serious health threats and reduce crises in education. We are meeting this challenge in Central Asia:

*Primary Health Care Reform and Maternal and Child Health:* At independence, the Central Asian countries inherited massive, inefficient health care systems that they are no longer able to support financially. In their current form, the region's public health, service delivery, health finance, and medical education systems are unable to address a range of problems leading to falling life expectancy in the region. Physicians have not been well-prepared to provide high quality, evidence-based services that effectively treat the most common and urgent conditions that their people face. Preventive care measures are poorly funded, and few people understand their own role in and responsibility for taking care of their own health. USAID is working to improve the quality of health care in Central Asia by changing the way that care is given. A priority is to increase the use of primary care, provided at the local level and on an outpatient basis. USAID's models of health reform are being continued and expanded by the Central Asian governments as they see the positive results of these interventions.

- USAID's assistance has increased access to quality primary health care throughout the Central Asian region, establishing facilities that have trained more than 10,000 clinicians in family medicine and general practice.
- Our provision of training and contraceptives throughout Central Asia has helped significantly to reduce abortion rates throughout the region. A comparison of the 1999 Kazakhstan Demographic Health Survey (KDHS) and the 1995 KDHS indicates a decline of 22 percent in the abortion rate.
- USAID has assisted the Governments of Kyrgyzstan, Kazakhstan and Uzbekistan in the design and implementation of National Health Reform Plans; a similar plan for Tajikistan is currently being developed with assistance from USAID-funded experts.
- USAID's efforts have led four countries in Central Asia officially to adopt, for national use, the World Health Organization (WHO)—recommended Live Birth Criteria, paving the way for reductions in infant morbidity and mortality. To date, as a result of pilot activities to introduce the new criteria, 221 infants have lived who otherwise would have been abandoned as dead.
- USAID has trained more than 12,000 clinicians in the Integrated Management of Childhood Illnesses, the WHO strategy to reduce death, illness, and disability, and to promote improved growth and development among children under five years of age.

*HIV/AIDS, Tuberculosis and Malaria:* Seventy to ninety percent of HIV infection in Central Asia is linked to injecting drug use, primarily heroin. The same percentage of the world's heroin comes from Afghanistan. While the USG has devoted considerable resources to poppy eradication in Afghanistan and border control support with Tajikistan, USAID's Drug Demand Reduction Program is one of the few regional efforts to reduce demand for heroin. USAID's efforts in this area are notable:

- Through our foreign assistance, USAID has helped establish eleven HIV sentinel surveillance sites in the region, thereby producing the first scientifically valid data on the course of the epidemic.
- With assistance from USAID, more than 76,000 Central Asian youths have been educated on the risks involved with drug use.
- We have used our assistance to leverage resources, such as assisting governments in the region to obtain \$74 million in additional funding through grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM).
- USAID programs have assisted countries in the region to advance toward the World Health Organization (WHO) global goal of 85 percent treatment success for tuberculosis (TB). The current range of treatment success in Central Asia in USAID project sites is from 75.7 percent in Uzbekistan to 85.3 percent in Tajikistan.
- In Kazakhstan, where USAID has supported tuberculosis (TB) control efforts since 1998, TB deaths decreased 41.6 percent between 1998 and 2003, and the Centers for Disease Control and Prevention calculates that the USAID-supported TB control strategy has saved more than 18,000 lives during that time.
- USAID has supported malaria prevention and control efforts in the region since 2000, resulting in an 84 percent decrease in malaria cases in the region between 2000 and 2005, and effective responses to outbreaks in Kyrgyzstan in 2002 and 2005. Governments in the region have been assisted to receive \$11 million in grants to fight malaria from the GFATM.

*USAID Efforts to Mitigate an Outbreak of Avian Influenza:* In support of the President's International Partnership on Avian and Pandemic Influenza, USAID has entered into partnerships with host country governments and the donor community, and is helping to lay the groundwork for an effective prevention and response strategy to outbreaks of avian influenza in Central Asia, including Kazakhstan, where H5N1 was confirmed as the causative agent in an outbreak in poultry last year and another outbreak in wild birds earlier this year:

- Together with international donors, in early June USAID will support a regional conference in Kazakhstan on *Avian Influenza Preparedness and Prevention* with representatives from all the Central Asian countries and their neighboring country governments. The key objectives of the meeting are to learn lessons from past experiences with outbreak control management and preparedness planning (including risk communication), and to review countries' responses and identify potential gaps for further assistance.
- With supplemental funding, USAID will provide technical assistance to all five Central Asian host country governments for surveillance, detection, laboratory testing, and animal and human outbreak management.

*Basic Education:* Education has a central role in the formation of human capital—an essential component of economic growth and societal development. More than a decade after the dissolution of the Soviet Union and the beginning of a transition to a market economy and democratic society, the Central Asian Republics face three broad challenges in the education sector: (1) maintaining previous educational achievements and slowing or reversing the process of deterioration that has taken place; (2) reforming educational systems so that they correspond to the market economy and democratic society; and (3) assuring access and equity to education for all groups, regardless of gender, ethnicity, and socio-economic standing. USAID's education assistance in the area of primary and secondary education is designed to prepare young people with flexible skills necessary to work in a market economy. In addition to promoting greater parental and community involvement, our programs support in-service teacher training, the introduction of a more efficient model for funding schools, and the rehabilitation of dilapidated schools.

While USAID began assistance in basic education only in 2003, much already has been accomplished:

- USAID-supported teacher training programs were officially recognized by the Governments in **Kyrgyzstan** and **Tajikistan** as meeting the teachers' mandatory professional development requirement. In **Kyrgyzstan**, the USAID core schools received the official legal status of teacher training provider, which allows them to offer paid services to other public and private entities.
- In **Tajikistan**, **Uzbekistan**, and **Kyrgyzstan**, at the request of the governments, USAID introduced a new per-capita budget formula to improve equity and increase efficiency in the area of school finance. The new model will give greater autonomy to schools in managing their budgets, while the capitation principle will reward quality improvement by giving a higher budget to schools with a growing number of students. In **Tajikistan**, the pilot has already expanded with technical assistance from USAID and additional donor support from World Bank and other donors. In **Kyrgyzstan**, the Government plans to use the USAID pilot as a model for future expansion of per capita financing.
- Community cost sharing in school renovation projects, mostly in the form of labor, has been surprisingly high even in the poorest areas of **Kyrgyzstan**, **Uzbekistan**, and **Tajikistan**, and in many cases, matched or even exceeded the value of USAID's grant.
- In **Turkmenistan**, where the education system is in a state of crisis, more than 300 teachers have been trained in critical thinking methodology, and over 30,000 children have benefited from teacher and administrator training.

*Higher Education:* While the focus of USAID's limited resources for education are at the primary level, the following constitute important examples of our commitment to higher education:

- One of USAID's legacies in Central Asia is the establishment of the American University of Central Asia (AUCA), the region's premier institution of higher learning, based in Bishkek, Kyrgyzstan. AUCA is a showcase of U.S. teaching methods, recently benefiting from an endowment of \$15 million funded by USAID and the Open Society Institute.



- As a means to reduce corruption in higher education, in 2002, USAID helped to create a National Scholarship Test for high school graduates in Kyrgyzstan. The examination now serves as a basis for admission to higher education as well as the sole criterion for the administration of over 5,700 state-sponsored scholarships.

#### THE WAY AHEAD: CENTRAL-SOUTH ASIA REGIONAL INTEGRATION.

In addition to focusing on our bilateral programs, USAID's new strategy will pay special attention to opportunities for enhanced integration between Central and South Asia, in keeping with the goals articulated by Secretary Rice during her recent trip to the region and reiterated by my colleague, Assistant Secretary Boucher, in his testimony today. As the U.S. government aims to strengthen trade, transportation, communications, and energy links between Central and South Asia, USAID is taking a leadership role in the facilitation of cross-border trade and energy sector development.

*Energy Sector Development:* Perhaps the greatest potential benefits of intra- and inter-regional collaboration lie in the **energy sector**, where better coordination is needed to (1) develop a transparent, commercial Central Asian electricity market; (2) enable the short and medium term export of power to Afghanistan; (3) build a reliable transmission system in Afghanistan; and (4) develop export capacity, a dedicated transmission system and a regulatory, contractual and security framework for trade and investment.

Although energy is an important economic driver in Central Asia, the potential for electricity sector development is limited because of the lack of an effective regional electricity market and problems with energy sector transparency and governance. USAID/Central Asia will soon launch a \$3.3 million Regional Energy Market Assistance Program (REMAP), a two-year project to improve the management of energy and related water resources through development of a transparent, reliable and commercially oriented regional electricity market.

In the Afghan power strategy, high priority is placed on economically priced power imports from Central Asia. Without such imports, Afghanistan will not be able to meet the domestic power supply needs in the long term. USAID/Kabul is working with Agency counterparts in South Asia to develop electricity import agreements.

*Trade Facilitation:* To foster **greater regional trade** in Central Asia, Secretary Rice announced in October 2005, as part of a larger USG initiative, a \$400,000 USAID trade facilitation program. The purpose of this program is to benchmark existing national customs procedures against international standards and best practices and identify opportunities to reduce transaction costs for business by harmonizing, strengthening and streamlining customs functions. It will be a vital complement to similar work in Afghanistan. USAID/Central Asia is also in the process of designing next generation programs that aims to reduce the regulatory and administrative burden for SMEs, facilitate trade, and provide assistance to the Central Asian countries to accede to the WTO or to meet their post accession commitments.

#### CONCLUSION.

In conclusion, we are proud of what we have accomplished over the last fifteen years in supporting Central Asia's transition in the post-Soviet era. However, there is still a great deal yet to accomplish. Central Asia's historical legacy includes entrenched developmental problems. There is much more to do in creating legal and institutional frameworks for business and in developing democratic civil societies, effective economic choice, improved social services such as health and education, and personal freedom. Consequently, in Central Asia, significant technical assistance will continue to be devoted to helping countries establish the institutional, legal and policy underpinnings of market democracies.

As new priorities emerge in other parts of the world, we urge the distinguished members of the House International Relations Committee to provide continued support to our programs in Europe and Eurasia. The geopolitical, security, and trade and economic importance of the region remains of vital interest to the United States, and our very close working relationships with the Coordinator's Office in the Department of State allow us to program resources in a way that will be most responsive to these interests.

Thank you, Madame Chairwoman. Without the support that this Committee and Congress have given us over the years, the progress that we have made in the region would not have been possible. In closing, I want to assure you of our continued commitment to achieving the noble goals Congress set out in the SEED and FREEDOM Support Acts, both within Central Asia and the broader E&E region.

**STATEMENT OF THE HONORABLE JAMES MACDOUGALL, DEPUTY ASSISTANT SECRETARY, U.S. DEPARTMENT OF DEFENSE**

Mr. MACDOUGALL. Thank you, Mr. Chairman, for the opportunity to discuss United States policy on Central Asia. Central Asia is in the middle of a historic transition. The United States is in the position to help these countries as they orient themselves toward Western democratic and market-based economic principles, and I believe it is imperative that we do so. If I could reiterate what Assistant Secretary Boucher, our three sets of strategic interest in Central Asia, namely political and economic reform, energy and regional economic cooperation, and security are all interrelated and equally important. Given my responsibilities, I would like to focus a few minutes on the security aspects of our policy in Central Asia.

Our core security goals in the region are threefold: To support the global war on terrorism; to strengthen regional border security; and reduce the risk of proliferation, particularly of weapons of mass destruction; and to promote and assist with defense sector reform.

On the global war on terrorism, the United States is engaged in what has appropriately been called "the long war." to prevail, we must find and destroy terrorists, bolster our own defenses, and particularly for this region, empower our partners to develop capabilities to isolate and expose terrorist groups and their means of support. Access to Central Asia supports ongoing combat and stability and reconstruction operations in Afghanistan. Because this part of the world is landlocked, we must rely on strategic airlifts to sustain large scale operations. That cannot be done without overflight and basing rights. Each country in the region has provided assistance to operation enduring freedom through bilateral arrangements for overflight, divert agreements, refueling rights, all critical to our operations in Afghanistan.

Currently our relationship with Kyrgyzstan is particularly important and we are working hard to maintain our cooperative arrangements with them. We are currently renegotiating the terms of our use of facilities at Manas. These negotiations are complex and require determination and flexibility on both sides, but we are committed to a successful conclusion.

The second core security goal is to secure the borders of the region from illicit trafficking including in WMD materials. We believe shutting down trafficking routes is essential to the long-term stability of both Afghanistan and the Central Asian region as a whole. Here we utilize cooperative threat reduction in counternarcotics funds to help countries build and modernize border crossing facilities, establish interdiction teams and other units. We train appropriate defense and military personnel and help modernize their equipment and facilities.

Central Asia has emerged as a significant narcotics trafficking route. DOD, in cooperation with the Departments of State and Justice is helping to build central Asia's capacity to combat the drug trade. We are training host nation counternarcotics enforcement personnel and refurbishing border security infrastructure in Kyrgyzstan and Tajikistan. In Tajikistan, we are also providing

real-time communications capability that will enhance interagency coordination on counternarcotics operations.

Thirdly, our core security goal in Central Asia is to transform the central Asian Soviet legacy defense establishments into modern institutions along the Euro Atlantic lines. Specifically, we envision interdependent Central Asian militaries that are firmly under civilian control, are subject to budget transparency and legislative oversight, are affordable in size to meet realistic security requirements. All five Central Asian states are members of NATO's Partnership For Peace, PFP. Their participation in PFP events and exercises helps develop interoperability which, in turn, enhances their capabilities to participate in coalition and other operations. PFP mechanisms including the Individual Partnership Action Plan, or IPAP, are important tools to help these countries implement defense reform. Earlier this year, I would like to note that Kazakhstan became the first Central Asian state to develop and secure NATO approval for an individual partnership action plan.

Contact between U.S. and foreign military officials promotes defense reform. Through bilateral defense consultations, states and National Guard partnerships and central command sponsored training conferences and other events, we are deepening personal and professional ties between the militaries of Central Asia and the United States, building, in effect, the next generation of leaders. As such, we strongly encourage young central Asian officers to participate in programs at the George C. Marshall Center for Security Studies.

Mr. Chairman, we have vital interests, security, economic and political that will endure in Central Asia well after operations in Afghanistan have ended. These interests require our attention now. We believe we must continue to balance our approach based on where each country stands in the economic, political and security realms. I look forward to working with you, with this Committee and my colleagues in the Executive Branch to further U.S. interests in this important region. Thank you, sir.

[The prepared statement of Mr. MacDougall follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES MACDOUGALL, DEPUTY ASSISTANT SECRETARY, U.S. DEPARTMENT OF DEFENSE

Madame Chair, Congressman Ackerman, Members of the Subcommittee, thank you for the opportunity to discuss U.S. policy on Central Asia.

The United States faces significant policy challenges in Central Asia. This region, made up of Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan, is now in the middle of an historic transition to fully independent, sovereign nations. We are in a position to assist these countries as they orient themselves toward western democratic and market-based economic principles, and it is imperative that we do so. Our policy is to help create a Central Asian region comprised of independent, sovereign pluralistic states that are territorially secure, free from external political domination, and economically engaged with international markets.

A region comprised of secular Muslim states, Central Asia has a rapidly growing population, much of which lives with limited economic and political opportunities. Difficult domestic conditions are exacerbated by international trafficking—in weapons, narcotics, and people. In sum, much of Central Asia is subject to a dangerous mix of demographic, economic, social, and political pressures that could help foment terrorism and Islamic extremism.

Alongside these challenges, however, are significant opportunities. First, Central Asia is home to ancient traditions of religious tolerance and scientific learning—traditions that can help shield it against extremism and create functioning examples of moderate Islamic states. Second, this region has proven economic potential. Cen-

tral Asia once made up the heart of the Silk Road. The prospect of regional economic dynamism still exists, especially given Central Asia's vast energy reserves and strong agricultural potential. These natural resources, if invested wisely, can help revive that economic vitality and foster much-needed economic growth. Third, Central Asian governments recognize that the transnational threats of international terrorism and illicit trafficking endanger their own national security. As such, we have strong opportunities for cooperation as we continue to prosecute the Global War on Terror.

The great policy questions of our time are all present in Central Asia—from combating terrorism to energy security; from supporting moderate Islam to promoting democratic development.

#### CENTRAL ASIA STRATEGY

The United States continues to pursue three sets of strategic interests in Central Asia, namely:

- Political and economic reform;
- Energy and regional economic cooperation; and
- Security.

We consider these objectives highly interdependent, mutually reinforcing, and equally important. Given my responsibilities, I will focus my attention primarily on the security aspects of our policy. But I would first like to briefly outline our goals in the other spheres. Additionally, I want to emphasize that we endeavor to pursue these different objectives simultaneously. No one objective trumps another.

As Assistant Secretary of State Fried told this subcommittee in October, failure in one area will undermine the chance of success in another. Therefore, our efforts in these countries must be crafted by carefully balancing developments in each sphere. Naturally, our enthusiasm for broadening our security cooperation with Central Asia must be tempered by economic and political realities. Likewise, our disappointment with the pace of reform in the region does not change that fact that we have important security interests in Central Asia.

#### POLITICAL AND ECONOMIC REFORM

Political liberalization and economic development in Central Asia are key to the region's long-term success. Lack of freedom from oppression and poverty breeds instability. Similarly, where a government lacks authority throughout its country's territory, you will find predatory forces, both inside and outside the country, that seek to fill the vacuum, often in destabilizing ways.

Economic opportunity and good governance are the long-term solutions to these problems. Terrorist groups will find few recruits within a population that has a vibrant economy and confidence in its governmental institutions. Regarding internal stability, no government has more legitimacy than one that is freely selected by its citizens.

The Department of Defense (DoD) has fewer tools than other U.S. institutions to directly empower the forces of political and economic reform. Still, our defense reform efforts play a significant role in strengthening one of the basic foundations of democratic society—capable, civilian-controlled, and responsible defense establishments.

#### ENERGY AND REGIONAL ECONOMIC COOPERATION

The economic vitality we seek to create in Central Asia can be promoted through regional cooperation and international investment. The U.S. government seeks to tie Central Asia into a regional web of economic cooperation and stability, with support from the international financial and U.S. commercial sectors. In this regard, I would like to highlight the important work being done by the U.S. Army Corps of Engineers in Tajikistan. Their work building a bridge over the Pyanzh River at the Afghan-Tajik border is a prime example of DoD's commitment to support projects to develop the economic infrastructure of the region.

Central Asia's energy sector needs increased investment. We must work to link up the impressive hydrocarbon and hydroelectric energy resources in Central Asia with regional and global energy markets. Further development of these resources and diversification of delivery routes from Central Asia—both economically beneficial to these countries—is a U.S. priority.

#### SECURITY STRATEGY

We have three core goals for our security relationship with Central Asia:

- To support the Global War on Terrorism;
- To strengthen regional border security and reduce the risk of the proliferation of weapons of mass destruction (WMD); and
- To promote and assist with regional defense sector reform.

*Global War on Terrorism*

The United States is engaged in what has been appropriately called “the long war”. We are faced with a determined and amorphous enemy that operates internationally and leaves us few fixed targets. To prevail, we must find and destroy terrorists, bolster our own defenses, and empower our allies and partners to isolate and expose terrorist groups and their means of support.

In greater Central Asia, our main focus is on supporting stability and reconstruction efforts in Afghanistan. This cannot be done without partners in the region. The most salient geographical fact of this part of the world is that it is land-locked. As a result, we need to rely on strategic airlift to sustain large-scale operations in the heart of the Asian landmass. And that cannot be accomplished without overflight and basing rights.

Every country in the region has provided assistance in some form to Operation Enduring Freedom. Through bilateral arrangements, we have secured basing access and the overflight, divert, and refueling rights that have been critical to our ongoing operations in Afghanistan.

Neighboring countries have consistently applied pressure on Central Asian governments to downgrade their cooperative relations with us, and this remains a constant challenge to regional security. In our view, every state with significant interests in the region benefits from stability in Afghanistan. That is why it is so important that Central Asian governments remain committed to supporting the development of a stable, secure Afghanistan.

Until November 2005, our operations in Afghanistan were supported from airbases in Karshi-Khanabad (K2), in Uzbekistan, and Manas, in Kyrgyzstan. At the request of the Uzbek government we left Karshi-Khanabad and now rely on Manas for logistical support to U.S. and Coalition forces in Afghanistan. That is not to say that other options do not exist. However, I want to emphasize that our relationship with Kyrgyzstan is important and we are working hard to maintain our cooperative arrangements with them. We are in the process of renegotiating the terms of our use of facilities at Manas with the Kyrgyz government. We are committed to an expeditious conclusion of these negotiations, which will require determination and flexibility by both sides.

Counterterrorism in Central Asia cannot solely be addressed in the context of Afghanistan. As I mentioned earlier, political and economic conditions in Central Asia potentially make the region susceptible to the rise of extremist movements. It is crucial that we act now to stem the tide by better preparing Central Asian governments to deal with these threats themselves.

To that end, we work within our statutory authority to provide counterterrorism training and expertise to Central Asian defense and military officials. Where appropriate, we have also helped equip our partners with non-lethal defense articles, increasing their operational effectiveness and interoperability with multinational forces. DoD is not alone in this endeavor. We work with our State, Justice, and Homeland Security colleagues to build capacities in the defense and security sector establishments.

In one prime example of the success of our counterterrorism efforts, DoD assistance helped establish Kazakhstan’s peacekeeping battalion, elements of which are currently serving a fifth rotation in Iraq. Originally tasked with ordnance disposal and water purification, this battalion has since begun training Iraqi security forces in these same tasks. Kazakhstan is one of three predominantly Muslim states with troops serving in Iraq, with Albania and Azerbaijan the other two.

*Non-Proliferation / Border Security*

Our second core security goal is to increase national capacities to secure borders (land, riverine, maritime, and airspace) from all types of illicit trafficking and the proliferation of materials for WMD. We believe that shutting down trafficking routes is essential to the long-term stability both of Afghanistan and Central Asia as a whole. To accomplish this, we utilize a variety of Cooperative Threat Reduction (CTR) and counter-narcotics (CN) funds to help countries build and/or modernize border crossing facilities, to establish interdiction teams and other military units, to train appropriate defense and military personnel, and to help modernize their equipment and facilities.

Central Asia has emerged as an important trafficking route for Southwest Asian narcotics. The UN estimates that 30 percent of Afghan narcotics transit Central

Asia on their way to Russia and Europe. Porous borders, scarce resources, and corruption constrain the Central Asian countries' efforts to stem the drug trade. In addition, we continue to see some links between drug trafficking organizations, organized crime, and terrorist groups in the region.

DoD, in cooperation with the State Department's Bureau of International Narcotics and Law Enforcement and the Drug Enforcement Agency, is helping to build the capacity of the Central Asian nations to combat the burgeoning drug trade in the region. In FY05, DoD dedicated \$28M in supplemental CN assistance to Central Asia. In FY06, we requested \$55M for CN capacity building in Central Asia. We are utilizing CN assistance to improve training for host-nation counter-narcotics enforcement personnel and to refurbish border security infrastructure in Tajikistan, Kyrgyzstan, and Turkmenistan. In Tajikistan, we are also providing a real-time communications capability that will enhance interagency coordination on internal CN operations.

Regarding non-proliferation, let me say that keeping WMD out of the hands of terrorists must be our highest priority. We have been working hard on this front. Kazakhstan, Uzbekistan, Tajikistan, and Turkmenistan have endorsed the Proliferation Security Initiative. We are working with Kazakhstan to destroy WMD-related infrastructure. Additionally, we are helping Kazakhstan build a Caspian Sea monitoring and response capability. We also work with Uzbekistan to improve border WMD detection capabilities and to identify, safeguard, and destroy dangerous pathogens.

#### *Defense Reform*

Our third core security goal is to gradually transform Central Asia's legacy Soviet defense establishments into modern forces along the Euro-Atlantic model. Specifically, we envision independent Central Asian militaries that are firmly under civilian control, are subject to budget transparency and legislative oversight, and that are affordable and sized to meet realistic security requirements.

All five Central Asian states are Partnership for Peace (PfP) members. Participation in PfP events and exercises helps develop interoperability with U.S. and NATO forces, which in turn enhances these nation's opportunities for participation in coalition operations. PfP mechanisms, including the Individual Partnership Action Plan (IPAP) and the PfP Planning and Review Process, are important tools to help them implement defense reform. Earlier this year, Kazakhstan became the first Central Asian state to develop and secure NATO approval for an IPAP.

Additionally, DoD uses its extensive bilateral contacts to expose foreign military officials to U.S. values and policies. It is our belief that increased contact is essential to promote both the interest and the ability to enact reform in Central Asia's defense establishments. Through bilateral defense consultations, State National Guard partnerships, and CENTCOM-sponsored training, conferences, and other contacts, we are working to deepen personal and professional ties between the militaries of Central Asia and the United States. Similarly, we strongly encourage and assist in the participation of young Central Asian officers and diplomats in courses at the George C. Marshall Center for Security Studies. We have strong interests in helping to build the next generation of leaders.

#### CONCLUSION

Madame Chairman, we must continue to balance our approach based on where each country stands in the economic, political, and security realms. Supporting operations in Afghanistan is an important part of this balance. Additionally, we have vital interests—security, economic, political—that will endure long after operations in Afghanistan have ended, and they require our attention now.

Thank you. I look forward to working with this committee and my colleagues in the executive branch in this important region.

Mr. McCOTTER. Thank you.

We have waited a long time. I suppose we can go to panel 2 now. I have some questions from the Chair and then I will have some of my own.

#### **STATEMENT OF MS. ELIZABETH DUGAN, VICE PRESIDENT, INTERNATIONAL REPUBLICAN INSTITUTE**

Ms. DUGAN. Thank you, Mr. Chairman. Good afternoon, and thank you for this opportunity to address you today. A little less than a year ago, I made a trip to Central Asia, and my flight was

delayed into JFK, and so I missed the connection to Istanbul. So I presented myself to the airline representative to rearrange my itinerary, and she basically told me that she could get me to Istanbul, but that it would not be in time to make the onward connection to Bishket. And her recommendation to me was that perhaps I could drive there from Istanbul. I told her that I didn't think she understood the geography involved.

So I begin by commending the Committee for not only appreciating the geography of this far-flung and often forgotten region of the world, but for hosting this hearing to draw attention to the challenges and opportunities that exist there. It matters. Central Asia's proximity to Iraq, Iran and Afghanistan highlights its strategic importance to the United States. Among other challenges, the region faces the potential for radical Islamist inroads into impoverished societies. So I am here today to make the case that Central Asia is worthy of democracy support efforts that are reinforced by our robust public diplomacy effort.

Since 2003, the International Republican Institute has proudly implemented democracy building programs in Kazakhstan, Uzbekistan and the Kyrgyz Republic, and we have built a non-partisan reputation by organizing hundreds of training events and roundtable discussion in the three countries, all designed to advance democratic institutions and practices. But these three countries present diverse challenges to us. In a manner of speaking, they represent the good, the bad and the ugly.

In the Kyrgyz Republic, I want to emphasize in particular the positive dynamic that occurs when funding, technical skills and an eager beneficiary are fused together. Thanks in large part to development assistance over the past 10 years the Kyrgyz Republic is the least authoritarian of the five former Soviet Central Asian republics.

Over the last year the country has been taking steps in the right direction, albeit with some delays and setbacks. Here are the positive developments. An unhindered press, a vocal civil society, an open public discussion of national issues. In fact, IRI polling from a month ago shows that the population is generally positive about the development of the country.

On major issues like unemployment, corruption and dealing with organized crime, though there is only limited progress. Additionally, there is the core issue of the country's future form of government, a Parliamentary, Presidential or mixed system. So President Bakiev has decreed that a national referendum on the form of government will take place in late 2006 preceded by a massive public education campaign.

At this stage, IRI polling shows that a majority of people are not aware of the coming constitutional referendum. And of those who are aware, 70 percent are not sufficiently informed to vote on it. Clearly much work needs to be done if the referendum is to be meaningful. And with USAID funds, IRI has developed information and training materials for political parties to spread throughout the country in this critical national education campaign.

While the referendum may be its single political event of 2006, the need for development of political parties remains a top priority if the country is to have a stable political system. Debate over con-

stitutional changes in 2005 focused on their importance, and by 2010, it is possible that political parties will occupy at least half of the seats in a more robust Parliament that is endowed with increased legislative and oversight powers. This would be an unprecedented development in Central Asia. The way to achieve it, to echo Secretary of State Rice's words of last October, stay the course.

This is a critical time in the country's development as an independent nation, and I cannot emphasize enough the key role that United States assistance plays in the Kyrgyz Republic.

Uzbekistan presents a far different and rather dark and ugly picture. It's tragic aftermath highlighted the fact that the country is effectively ruled by a dictator. Not one of the 220 members of the Parliament uttered a word of condemnation or dared question President Karimov's deadly response to the demonstration there, reflecting the intolerance of public expression and the general absence of civil liberties in the country.

What else is missing? Citizen participation in the political process, independent news media, legally registered opposition parties. All of this has created fertile ground for the appeal of radical Islam, which sees opportunity in the ideological and economic poverty that prevails in the country's regions. Regressive policies, total suppression of opposing views and the virtual elimination of the civil society have closed off almost all channels of outside assistance, and effectively restricted the activities of organizations like IRI. So severely, in fact, that we have had to cancel training seminars and have lost valuable program time to tend to bureaucratic and cumbersome reaccreditation and registration process.

The situation in Kazakhstan falls somewhere between the promise of the Kyrgyz Republic and the dire situation in Uzbekistan. Unlike their poorer neighbors, Kazakhstan's natural gas and oil revenues have funded the countries' robust economic development, and to some extent, its political and social development, making it less dependent on outside assistance. So we have seen Kazakhstan transition from a post Soviet republic to a semi-authoritarian, semi-free market country with quasi-independent political parties.

In 2005, President Nazarbayev announced a national program of political reforms that is designed in theory to introduce local elections and self-government structures. In 2006, this message was reinforced with the creation of a new state commission on democratization. However, President Nazarbayev assumed the chairmanship of the Commission, which likely signals his intent to control it and certainly detracts from the Commission as a venue for real debate and free expression of democratic views and ideas.

So it remains to be seen whether the expanded mandate of the commission is part of the President's strategy for Kazakhstan to ascend to the OSCE chairmanship in 2009, or whether, in fact, it is a genuine step toward democratic reform.

In Kazakhstan, IRI's assistance has focused on political party strengthening and candidate training for local and Parliamentary elections. Percentages of candidates with party Parliamentary affiliation increased during the last 3 years, and we were very optimistic that steady progress was being made, but regressive tendencies and administrative interference with some of the parties



have tempered the country's political development. United States assistance to Kazakhstan must continue to help support political reform to the greatest extent possible.

To conclude, in each Central Asian country, there exists at various levels a genuine desire for democracy assistance. The United States should encourage the region's leaders to adhere to bilateral agreements, and it must also do a better public relations job of explaining America's support for political and economic reform and participatory democracy. This fact is sometimes lost on pro-democracy groups that have little access to accurate information in this relatively isolated region and therefore feel ignored by the United States. If this perception persists, radical Islamists are ready to fill the void, and U.S. foreign interests will face yet another far flung and growing ideological foe.

I thank you for your kind attention, sir. And I would like you to know and also for the rest of the Members of the Committee and staff to know that if you have an interest in our polling results in the Kyrgyz Republic, IRI is pleased to avail ourselves to separate briefings for you.

[The prepared statement of Ms. Dugan follows:]

PREPARED STATEMENT OF MS. ELIZABETH DUGAN, VICE PRESIDENT, INTERNATIONAL  
REPUBLICAN INSTITUTE

Good afternoon, Madam Chairman and members of the Subcommittee. I appreciate the opportunity to testify today on Central Asia, a region of the world that has not always received sufficient attention because of its distance and relatively short history of relations with the United States. Central Asia's proximity to Iraq, Iran and Afghanistan highlights its strategic importance to the United States. Among other challenges, the region faces such issues as illegal drug routes from Afghanistan, large flows of migrant workers, and potential for Islamist inroads into impoverished societies still bereft of a post-Soviet national ideology. Consequently, I am here today to make the case that Central Asia is worthy of carefully crafted and funded democracy-support efforts that are reinforced by a robust public diplomacy effort.

Fifteen years have elapsed since the countries comprising former Soviet Central Asia became independent. During this time, the region was the last to benefit from U.S. democracy assistance and still lags behind other former Soviet republics with respect to economic and political reforms. For years after the break-up of the Soviet Union, policymakers tended to treat the region as a whole. However, these countries are now sufficiently differentiated that they must be treated on the basis of where each stands in its development and relations with countries outside the region. This development dovetails with the International Republican Institute's (IRI) approach to democracy building in the region since we began work there in 2003.

Since that time, IRI has implemented democracy-building programs in three Central Asian countries: Kazakhstan, Uzbekistan and the Kyrgyz Republic. Guided by a sense of cautious optimism, IRI has taken an equal-opportunity approach in its work: all democratically-oriented parties and groups are invited to benefit from IRI's technical assistance. IRI has built a non-partisan reputation through organizing hundreds of training events and round table discussions in the three countries, all designed to advance democratic institutions and practices.

Turning first to the Kyrgyz Republic, we note the positive dynamic that occurs when donor funds, sound technical skills and an eager beneficiary are fused together. Thanks in large part to development assistance from international, European and U.S. government-funded organizations during the past ten years, the Kyrgyz Republic is the least authoritarian of the five former Soviet Central Asian republics. With a population of five million, few natural resources and a continually struggling economy, Kyrgyzstanis generally have been open to outside assistance. Following the March 2005 events in which long-time and increasingly authoritarian President Askar Akaev was chased from power by disgruntled citizens, the country is taking steps in the right direction, albeit with delays and intermittent setbacks. Positive developments are an unhindered press, vocal civil society and open public discussion of national issues. Furthermore, in a region of authoritarian, one-man

rule, the democratically-elected “tandem” of President Kurmanbek Bakiev and Prime Minister Feliks Kulov has remained intact despite a difficult first year. IRI polling shows that the population is generally positive about the development of the country.

However, on major issues like unemployment, corruption and dealing with organized crime, there is only limited progress. President Bakiev has hesitated on fulfilling election promises about constitutional reform. Two Constitutional Councils formed in 2005 debated amending the national constitution to address the country’s political vulnerabilities, but they failed to reach a consensus or to sufficiently please President Bakiev. The core issue is the country’s future form of government: a parliamentary, presidential or mixed system. Subsequently, President Bakiev decreed that a national referendum on the form of government would take place in late 2006, preceded by a massive public education campaign. At this stage, IRI polling shows that a majority of people are not aware of the coming constitutional referendum and of those who are aware, 70 percent are not sufficiently informed to vote on it.

Clearly, much work needs to be done if the referendum is to be meaningful. Fortunately, the United States is assisting in the national education campaign. With USAID funds, IRI has developed “forms of government” information and training materials for political parties to disseminate throughout the country. Presently, IRI is sponsoring trips throughout the country for political party representatives to instruct their regional branches and the media on the basics of parliamentary, presidential and mixed systems.

While the referendum is the Kyrgyz Republic’s signal political event of 2006, the need for development of political parties remains a top priority if the country is to have a stable political system. Debate over constitutional changes in 2005 focused on the importance of political parties, and by 2010, it is possible that political parties will occupy at least half of the seats in a more robust parliament that is endowed with increased legislative and oversight powers. This would be an unprecedented development in Central Asia, where one-man rule has disallowed checks and balances.

The Kyrgyz Republic’s political transition is a long-term, generational process which requires steady U.S. support. Kyrgyzstanis are willing to learn and to progress. Democracy assistance there presents a relatively strong example of cost-effective use of U.S. taxpayer dollars. IRI concurs with Secretary of State Rice’s message to Kyrgyzstanis during her short visit there last October: stay the course. This is a critical time in the country’s development as an independent nation, and I cannot emphasize enough the crucial role that U.S. assistance plays in the Kyrgyz Republic. We must do everything possible to help its citizens and their government build a more stable and democratic society. IRI will continue to be there to provide this essential piece of development assistance.

Uzbekistan presents a far different and rather dark picture. The government’s mass shooting of civilians at a public demonstration in Andijon in eastern Uzbekistan almost one year ago put the country’s problems and backward direction into sharp relief. Andijon’s aftermath also highlighted the fact that the country’s 25 million people are effectively ruled by a dictator: not one of the 220 members of the two-chamber parliament uttered a word of condemnation or dared question President Islam Karimov’s handling of Andijon. Since Andijon, independent activists have been jailed, hundreds of domestic and international organizations have been closed, and reform-minded Uzbekistanis have been silenced, isolated or forced into exile.

The government’s deadly response in Andijon reflected its intolerance of public expression of grievances and the general absence of civil liberties. Citizen participation in the political process is severely limited due to a lack of legal standing for political opposition movements and parties, and no independent news media. There are no legally-registered opposition parties in Uzbekistan. The Karimov government has allowed five pro-government parties to hold seats in the parliament, but they have no independent capacity. In general, Uzbekistan operates on a Soviet-era model of centralized power and administrative command but with no social ideology to buffet the system. This has created fertile ground for the appeal of radical Islam, which sees opportunity in the ideological and economic poverty that prevails in the country’s regions.

Regressive policies, total suppression of opposing views, and the virtual elimination of a civil society has closed off almost all channels of outside assistance. The Karimov administration has effectively restricted the activities of international organizations like IRI by enforcing new decrees and amendments to existing laws that are contrary to the U.S.-Uzbekistan Bilateral Agreement. Restrictions on foreign non-governmental organizations are so severe that IRI has had to cancel training

seminars and has lost valuable program time to tend to bureaucratic and cumbersome re-accreditation and registration processes.

While there is a genuine demand for IRI's technical support throughout Uzbekistan, unfortunately there is no relief on the horizon for the country's pro-reform groups. Moreover, since Andijon, Moscow and Tashkent have forged closer commercial, political and military ties. During a recent series of high-level Russian delegations to Uzbekistan, Russian officials have repeatedly confirmed their support for President Karimov's handling of Andijon. Change may have to wait until a post-Karimov generation begins to lead the country along modern, international norms.

The situation in Kazakhstan falls somewhere between the promise of the Kyrgyz Republic and the dire situation in Uzbekistan. Like their Kyrgyz cousins, Kazakhstani political activists have taken advantage of U.S. development assistance with a relatively open attitude. However, such assistance has been carefully scrutinized by Kazakhstani authorities. Unlike their poorer neighbors, Kazakhstan's natural gas and oil revenues have funded the country's robust economic development and to some extent its political and social development, making it less dependent on outside assistance. For instance, while political parties still have not yet matured in Kazakhstan, they do not suffer from a chronic shortage of funds as do their counterparts in the Kyrgyz Republic. Kazakhstani political activists have shown themselves enthusiastic students of Western democratic principles and practices.

With a population of 15 million, Kazakhstan has transitioned from a post-Soviet republic to a semi-authoritarian, semi-free market country with quasi-independent political parties and an elected lower chamber of parliament. President Nursultan Nazarbaev's administration failed, however, to permit truly competitive elections both in 2004 and 2005, and to allow a free media, possibly endangering his country's bid for the 2009 chairmanship of the Organization for Security and Cooperation in Europe (OSCE). Additionally, persistent corruption has been progressively undermining past progress in political reform. Yet, OSCE Chairman-in-Office and Belgian Foreign Minister Karel De Gucht struck an optimistic note during his recent visit with President Nazarbaev, noting that the OSCE deems it "very important that it be headed by a country located to the east of Vienna" and positively appraising Kazakhstan's democratization prospects and President Nazarbaev's stated commitment to advance them.

In 2005, President Nazarbaev announced a "national program of political reforms" that is designed, in theory, to introduce the election of regional governors and city mayors and establish local self-government structures. In 2006, this message was reinforced with the creation of a new State Commission on Democratization. However, President Nazarbaev assumed the chairmanship of the Commission, which likely signals his intent to control it and certainly detracts from the Commission as a venue for real debate and free expression of democratic views and ideas. It remains to be seen whether the Commission's expanded mandate is part of President Nazarbaev's strategy for Kazakhstan to ascend to the OSCE chairmanship or a genuine step toward democratic reform.

In Kazakhstan, IRI's assistance has focused on political party strengthening and candidate training for local and parliamentary elections. IRI has built a reputation with the parties as being objective and impartial. Percentages of candidates with party affiliation increased greatly during the last three years, and IRI was optimistic that steady progress was being made. However, regressive tendencies and administrative interference with some of the parties have tempered the country's political development. Mass media remains largely controlled by media holding companies owned by the president's family. Opposition newspapers are periodically sued, closed and reopened under other names.

Going relatively unnoticed in Kazakhstan is the legal and illegal migration of hundreds of thousands of workers from other Central Asian and Caucasus countries. This trend presents a growing challenge to the country's national security and internal stability. So far, the issue is not generating sufficient evaluation or discussion.

U.S. assistance to Kazakhstan should help support political reform to the greatest extent possible. Our government must be ready to lend technical expertise to the various components of the democratization plan that the State Commission on Democratization recommends, and particularly for helping local municipalities establish self-government. As with the Kyrgyz Republic, a U.S. policy of steady democracy assistance will help Kazakhstan chart a course of democratization that will gradually become institutionalized and sustainable.

In each Central Asian country there is, at various levels, a genuine desire for democracy assistance. To help desire become reality, the United States should encourage the region's leaders to adhere to the letter and spirit of bi-lateral agreements. The United States must also, perhaps through the State Department's public diplomacy initiative, do a better public relations job of explaining America's support for

popular political and economic reform and participatory democracy. It is imperative that civil society activists understand that IRI does not favor working with only a select few, but will consider assisting any democratically-oriented group that encourages citizen participation. This fact is sometimes lost on pro-democracy groups in a relatively isolated part of the world that have little access to accurate news and information and therefore feel ignored by the United States. If this perception persists, radical Islamists are ready to fill the void, and U.S. foreign policy will face yet another far-flung and growing ideological foe.

In summary, the United States has critical interests in the countries of Central Asia and we have distinct challenges in each country. We must provide the financial assistance necessary to help Kyrgyzstanis continue their democratic transition. In Uzbekistan, the United States must insist on adherence to democratic principles and the rule of law. In Kazakhstan, we must remain engaged in the development of democracy.

Thank you, Madam Chairman.

Mr. MCCOTTER. Thank you. Ms. Olcott.

**STATEMENT OF MS. MARTHA BRILL OLCOTT, SENIOR ASSOCIATE, RUSSIAN AND EURASIAN PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

Ms. OLCOTT. I wish to thank you for the opportunity to testify before you today. The States of Central Asia are of increasing importance for the United States, yet unfortunately, the opportunities that U.S. policymakers have for influencing developments in this region are relatively circumscribed. This is probably a product of how much, or more, frankly, how little foreign assistance is spent in this region which makes the threat of withholding funds unfortunately oftentimes a rather or relatively empty one. But even a decision to throw money at the regions problems would not turn most of these countries into viable democracies with market-based economies any time soon. Some of these countries have little need for outside assistance and their leaders perceive even less need for outside advice, while others still eschew assistance rather than accept what they see as unwanted foreign meddling.

This gives U.S. policy makers little choice but to take a long-term perspective which we have heard from the various people from the administration that we are, in fact, doing. Trying to maximize the likelihood that these countries will eventually develop into democracies, but we need to do this in a way that is cognizant of the short and medium term threats that may come from this region. Let me make a few general points about some of these threats and some of the challenges we face with regard to democracy building, energy security, terrorism and organized crime. And then, in the question period, I will be happy to share some policy suggestions if there is time or interest.

Speaking bluntly, for all their invocations of democracy, Central Asia's leaders share few democratic values with United States leaders. None of these countries have much chance to develop into Western style participatory democracies until a new generation, one educated and socialized since the collapse of communism takes power. This creates real challenges for us, for as we have heard the real focus of U.S. policy has to get young people the educational and media access necessary to help facilitate their full participation in their own country and in the broader global community. And the political preconditions must be put in place to allow this more cosmopolitan generation to enter political life.

Without this, there will never be a ruling elite that is competent in a democratic sense or an opposition that is necessary to check them.

This creates for U.S. policy makers the chicken-and-an-egg dilemma. How do you get non-democratic leaders to establish the pre-conditions for democratic development? I would argue and we have heard that the model of a color revolution in this region has not worked out well. A peaceful or nonpeaceful popularly supported effort at regime change throughout this region in any of the countries of this region would not necessarily produce the kind of democratic outcome we would like to see.

Here, I think the example of Kyrgyzstan is one that gives us cause for concern. For a year after their revolution, this society, the country seems more fragmented and potentially unstable than ever before, and I would argue that the long term survival of civil society institutions are still not assured.

Then I would turn to the question of Kazakhstan, where I think the question of levers again becomes a really important one. I think the U.S. in its policy and the EU are giving the states of the region a clear choice. Accept United States and European norms, and you can participate as respected members of various European and international forums. Failing this you join the category of other states offered a more limited kind of friendship. And if you fail to behave at all you become pariah and rogue states.

The drive for greater international acceptance provides reason for some optimism that the situation in Kazakhstan may continue to improve, given how much President Nazarbayev wants his country to chair the OSCE in 2009, a decision to be made in late 2006, and for which he has promised, and I will not reiterate the points my colleagues made, or the fact that the picture is still a very cloudy one.

But I would argue, and I go through this at greater length in my testimony, the political drama in Kazakhstan is creating complex choices for Western leaders.

There is naturally a desire to flatter the President of a country that has oil and gas reserves, but I would say that cannot be and will not be the focus of how the OSCE members make the decision. What I think is most crucial and what makes the calculus of decision making so difficult from the point of view of democracy building, is that I would argue that if Kazakhstan's OSCE bid is turned down, then Nazarbayev may well decide it is much easier to abandon democratic reform, a position that he will find support from the Shanghai Corporation organization. And he will also find the same markets for his energy in this arena. Clients from the north and the east will come forward and buy any oil and gas that he is willing to ship to them.

Let me leap quickly and just touch on some of the more difficult states. Let me say something about Uzbekistan. I think Washington, in my opinion, correctly decided on a much more cautious strategy in the post Andijan environment than did the EU member states. I think one of the payoffs was the Uzbek nuclear materials were successfully moved to Russia, in part, through international supervision that was arranged in large part through U.S. auspices.

I am more concerned though that international concern over Uzbek human rights violations, a rightful concern, led to a diminished focus on developments in energy rich Turkmenistan. Here I would say the situation is even more dire. Government policies here are compromising the long-term prospects for political institution building. The state has all but destroyed the national education system and introduced restrictions on foreign contact and foreign study by all its citizens. Given the demographically small size of the Turkmen nation and how few people are actually able to study and live abroad, the prospects of a national revival in post-Niyazov Turkmenistan are not very good. Fortunately, the Uzbeks have not taken similar steps to irrevocably destroy the human potential of the next generation which gives us reason for hope but maybe not for optimism.

A few quick words about energy. I think it is important, and again I have written extensively about this in other settings, that Central Asia's energy assets are vast but we should not exaggerate the role that they are likely to play in meeting United States and Western needs. No matter how enlightened, United States policy only have a marginal effect on minimizing Russian and Chinese presence in the region, as geography plus geopolitical pressure gives each more leverage than we are to employ. This is especially true for Kazakhstan which takes me back to the OSCE and the crucialness in some ways of that decision.

Again, I can come back. I am running out of time. I do not want to belabor the transport issues. But I think that Kazakhstan has followed a policy of balance and prudence which has worked to their own advantage, which is one of the reasons they continue to ship so much oil through Russia. Cooperation with China is one we really have to be aware of. Unlike cooperation with the West, cooperation with China gives Kazakhstan some new transit options. Transit options that can piggyback on to the transit options from Russia. So it does not create the kind of either/or choice that Russia likes to depict the trans-Caspian pipeline as to ship greater quantities of oil through BTC. Again, I can come back to this.

Chinese national oil companies are aggressively seeking to buy up all available assets in Kazakhstan, Turkmenistan and Uzbekistan; and in fact, they have bought the same gas in Turkmenistan that the Russians have which will create a crisis in 2009 because even Niyazov cannot sell his gas twice.

For several of the landlocked states, selling through Russia is not a bad deal. This is particularly true for Uzbekistan. While the Uzbek President has depicted the turn to Russia as an energy investor as part of a country's strategic reorientation, in reality, there has only been limited Western investment in Uzbekistan's oil and gas sector since independence. So he is striking a lucrative deal with the only partner around.

One thing about post-Niyazov Turkmenistan and then I will move. Niyazov's Turkmenistan has been a difficult friend for Moscow, but I think Niyazov has benefited from the complex cash and barter transactions, personally benefited, that have been put in place which explains some of the difficulties of this relationship. The situation may change in post-Niyazov Turkmenistan, and cer-

tainly, I think the United States must be an alert bystander to any succession struggle in order to help facilitate positive development.

For now at least, I would argue that Turkmenistan remains an unstable potential economic partner for the United States as it remains an unattractive partner for Western oil and gas concerns, and I think we see this reflected in the difficulty of getting commercial partners in the trans African pipeline.

Just a quick word about drugs and the criminalization of the economy through the region. If you are interested, I can come back to this. This is all in the testimony.

One of the byproducts as we all know of the international campaign in Afghanistan is an increase in opium and heroin coming through Central Asia. One of the things this has produced is much greater, I would argue, it has created a capacity of criminal groups to insinuate themselves into governments in this region, and it has also put governments more in the business of facilitating criminal trade directly. The first model of criminal groups insinuating themselves has been more characteristic of Tajikistan and increasingly of Kyrgyzstan. Whereas the second model of governments who appear, and again you cannot get real information on this, but appear to be facilitating the trade directly would be Uzbekistan and Turkmenistan.

I think we have seen some real success in the last few years in the efforts of the Tajik government to control the drug trade across their territory. I am concerned about the growing criminalization of what I see in Kyrgyzstan.

Two, comments about extreme ideology and the crisis of confidence. I want to say one thing again I have written extensively on this on the threat of terrorist groups. This really creates a very difficult situation for the U.S. I would say as it is true in so many areas of the world, there are religiously-inspired terrorist groups targeting the governments of these regions, groups that consider themselves part of the global jihadist network. Some are derivative groups of the IMU, Islamic Movement, while others are locally based and have sprung up in the post September 11 world. These groups may or may not have external financial support; but more importantly the scale of the activities is sufficiently small that local business or political interests are capable of supporting them. Their potential for successful mobilization is not the result of financial means but of the popular dissatisfaction which makes this an ongoing problem.

A more problematic case is the case of Hizb' ut-Tahrir, problematic from the point of view of policy making, not in terms of global terrorism. The very nature of their goal is revolutionary, although it formally condones the use of violence. It is unclear whether their members are individuals are attracted to the use of violence to achieve their goal. The presence of HT throughout the region and I would argue that they are already operating openly in southern Kyrgyzstan, again, something we can come back to if there is interest, has worked to the advantage to the Islamic establishment more generally. And this is particularly true in Uzbekistan, where the degree of religious ferment within the clergy loyal to the regime has gone relatively unnoticed by outsiders. Islam remains one of

the few bases of legitimacy for the Uzbek regime, be it that of Karimov or of his successor.

I have argued elsewhere that Uzbekistan's secular leaders do not fully understand the potential political dynamism of what they see as a largely conservative and traditional social force. Central agents religious revival although more radical in content than Western observers originally anticipate, need not be antithetical to U.S. interest. Although in a number of countries, it will slow and, in some cases, possibly even preclude the development of secular democracy. But it need not keep them from developing into participatory societies with free market economies. The greatest danger is not Islam or the nature of the region's Islamic revival but how the leaders of these countries will orient themselves to these developments. On this question, as so many others, central Asia's leaders may be undone by their own incompetence and vanity. Thank you.

Mr. MCCOTTER. Thank you.

[The prepared statement of Ms. Olcott follows:]

PREPARED STATEMENT OF MS. MARTHA BRILL OLCOTT, SENIOR ASSOCIATE, RUSSIAN AND EURASIAN PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

I wish to thank you for the opportunity to testify before you today.

The states of Central Asia are of increasing strategic importance for the U.S., yet unfortunately the opportunities that U.S. policy-makers have for influencing developments in this region are relatively circumscribed. This is partly a product of how much (or more frankly, how little) foreign assistance is spent in the region, which makes the threat of withholding funds a rather empty one. But even a decision to "throw money" at the region's problems would not turn most of these countries into viable democracies with market-based economies any time soon. Some of these states have little need for outside economic assistance, and their leaders perceive even less need for outside advice, while others will eschew assistance rather than accept what they see as unwanted "foreign meddling."

This gives U.S. policy-makers little choice but to take a long-term perspective, trying to maximize the likelihood that these countries will eventually develop into democracies. But US policy makers need to do so cognizant that developments in the short and medium term may create serious security challenges for the citizens of these countries, neighboring states, and perhaps, directly or indirectly, for the U.S. as well.

#### A LACK OF SHARED VALUES

For all their invocations of democracy, Central Asia's leaders share few values with U.S. leaders. None of these countries have much chance to develop into western-style participatory democracies until a new generation, one educated and socialized since the collapse of communism, takes power. When this occurs there is at least some chance that the ruling elite in these countries (and I am using this term quite broadly to include both the governing class and the political opposition), will have a value system largely shared with its U.S., European, and Japanese counterparts.

In today's Central Asia, it would still be a mistake to romanticize the prospect of a "color" revolution. A peaceful (or non-peaceful) popularly supported effort at regime change in the region would not necessarily produce a democratic outcome. A year after the virtually bloodless ouster of Kyrgyzstan's President Askar Akayev, the country appears more fragmented and potentially unstable than before. Moreover the long-term survival of civil society institutions is still not assured.

It is also not clear whether the west has gained or lost levers with which to influence the development of civil society. It is critical for the long-term success of the Central Asian states that young people get the educational and media access necessary for full participation in their own country and the broader global community. The political preconditions must be put in place to allow this more cosmopolitan generation to enter political life. Without this there will never be a ruling elite that is competent in the democratic sense, or the opposition necessary to check it.



There is a “which came first, the chicken or the egg” dilemma here. How do you get non-democratic leaders to establish the preconditions for democratic development? In this light, too, the post-revolutionary situation is quite disappointing in Kyrgyzstan. President Kurmanbek Bakiyev seems even less eager to join “the community of Western democratic nations” than was his predecessor Askar Akayev during the “honeymoon period” of his presidency, when Akayev was delighted with flattering depictions of himself as the Kyrgyz Thomas Jefferson. Possibly this is because President Bakiyev holds a pessimistic view with regard to the political and social cleavages in his country, and its short and medium term economic prospects, which do not correspond to popular expectations. This means Bakiyev will seek any real or even illusory sources of investment in his country’s economy, asking unreasonably high rent for use of his airbase and trying to entice Russian firms into making multi-billion dollar investments in hydroelectric power plants in his country (instead of competing projects in Tajikistan).

Given the Kremlin’s expectations about the need for—or even the appropriateness of—democratic reform, the Central Asian states are being given the opportunity to sign up for a very different kind of “group think” than that toward which the U.S. and the European Union are urging them. This is a big change from the early 1990s, when at least on political institution building Russian and Western messages converged, with Yeltsin even attacking his own parliament in 1993 to defend democracy.

Now that the messages are so divergent, the states of the region are being given a clear choice: accept U.S. and European norms (effectively the formal standards of the OSCE) and you can participate as respected members of these and various other European and international forums. If not, join the category of “other” states, at best fair-weather friends with a kind of “second-class” status, and at worst pariah or rogue states.

Obviously, the U.S. would like to see all of the states in the region aspire to the first category. This is all the more true because absent their desire U. S. and European leaders have little hope of seeing positive short or medium term political change in any of these countries.

The drive for greater international acceptance provides some reason for optimism that the political situation in Kazakhstan may continue to improve, given how much President Nursultan Nazarbayev wants his country to chair the OSCE in 2009. This decision will be made in late 2006, which explains why the Kazakh leader has promised further opening of the political process through the expanded introduction of local elected governments and continued judicial reform. But the picture is still far from a one-sided one. The 2005 presidential elections were the most competitive the region has seen, and Nazarbayev’s 91 percent vote did reflect his overwhelming popularity. But they also featured irregularities at the ballot-box, and more importantly an unequal playing field during the electoral campaign. This further handicapped an opposition already crippled by years of the president dominating the country’s media, much of which is owned by his family members. Nazarbayev lost further political credibility in western capitals when one of the country’s most prominent opposition figures—a younger figure from the ruling elite—was brutally murdered under mysterious circumstances that involved members of the internal security forces. The murder compounded the widespread perception that the opposition does not enjoy anything close to a level playing field either with regard to access to the media or in public life.

The political drama in Kazakhstan is creating complex choices for Western leaders. There is naturally the desire to flatter the president of a country with vast oil and gas reserves, which are being developed in part by companies from one’s own country. Indeed the best way to get Kazakhstan over the threshold of political institution building necessary to sustain democratic development might well be to pretend it has accomplished more than it really has. For if Kazakhstan’s OSCE bid is turned down, then Nazarbayev might decide it is much easier to abandon democratic reform, a position that will find support from the Shanghai Cooperation Organization (which consists of Russia, China, Kyrgyzstan, Tajikistan, and Uzbekistan). In an ideal world U.S. and European policy-makers would somehow convince Nazarbayev to delay Kazakhstan’s request to chair the OSCE until 2012, the end of his current term as president, giving him the chance of achieving his “crowning glory” and allowing the west to remain consistent with its own democratic values. But the Kazakh president, with eager potential energy clients to the north and east, may decide that he need not accept virtually guaranteed, but deferred, gratification.

The choice will be a tough one, especially because there has been a reluctance to treat even the most “badly behaved” of the Central Asian countries as pariah states. In the case of Uzbekistan, Washington, in my opinion correctly, decided on a more cautious strategy in the post-Andijian environment than did the E.U. member

states. And one of the payoffs was that Uzbek nuclear materials were moved to Russia, where they are subject to closer international supervision, under U.S. auspices (though the U.S. got no credit for this from the Uzbek media).

International concern over Uzbek government human rights violations in Andijian has also led to a diminished focus on developments in energy-rich Turkmenistan. Here the situation is dire. Government policies are compromising the long-term prospects for political institution-building. The state has all but destroyed the national educational system and introduced restrictions on foreign contact and foreign study by its citizens. Given the demographically small size of the Turkmen nation, and how few people are actually able to live or study outside the country, the prospects of a national revival in post-Niyazov Turkmenistan are not very good. Fortunately the Uzbeks have not taken similar steps to irrevocably destroy the human capital of the next generation, which allows for hope, but not optimism.

#### ENERGY SECURITY

Central Asian energy reserves are vast, but we shouldn't exaggerate the role they are likely to play in meeting U.S. and Western needs.

As you are all aware, transport is the greatest challenge. No matter how enlightened, U.S. policy will only have a marginal effect on minimizing Russian or Chinese presence in the region, as geography (even without the addition of geopolitical pressure) gives each more leverage. This is especially true for Kazakhstan.

At a state-to-state level the Russians have often tried to be tough negotiators with the Kazakhs, slowing the initial construction of the CPC pipeline by several years. While the US and Azerbaijan are lobbying hard for Kazakhstan to commit large volumes of oil to the Baku-Tbilisi-Ceyhan (BTC) pipeline, Russia continues to make shipping higher volumes of oil across its territory problematic. Permission to expand CPC's capacity was slow in coming and Transneft remains a tough negotiator during talks on transit fees and increased volume for Kazakh oil through its transit network.

The ultimate profitability of the BTC pipeline, which cost over \$2 billion to build and will require further expansion, may depend upon the volume of Kazakh oil on this route. Kazakhstan will commit some reserves to the BTC pipeline starting in 2008, but remains reluctant to further antagonize Russia by agreeing to the U.S.-proposed TransCaspian oil and gas pipelines. These would substantially increase the volume of Kazakh oil, which currently goes by freighter across the Caspian, that could be transported through BTC. Citing ecological concerns, Russia remains vociferously opposed to the proposed undersea routes. Given that off-shore development of Caspian reserves is going on without the existence of an agreed-upon legal regime among the five littoral states (Russia, Iran, Turkmenistan, Azerbaijan and Kazakhstan), and the continued economic interdependence of the post-Soviet states, there is a good deal of prudence behind Kazakhstan's actions.

For much the same reason, Kazmunaigaz, the Kazakh state oil company, is eager to engage in projects with Russian firms, including Rosneft and Lukoil. The private Kazakh oil company Nelson Resources (rumored to have been partly held by members of the Nazarbayev family) was sold to Lukoil in 2005. Nazarbayev's family remains active in Kazakhstan's oil industry, and his son-in-law Timur Kulibayev is a frequent point of contact for Russian oilmen.

Cooperation with China does allow Kazakhstan new transit options. The Chinese National Petroleum Company (CNPC) owns a controlling interest in Aktobemunaigaz, a production company in Western Kazakhstan. But Chinese ambitions vis-a-vis Kazakhstan extend a lot further. In 2003 China National Offshore Oil Corporation (CNOOC) and China Petroleum and Chemical Corporation (Sinopec) made a bid to buy British Gas' share of Kazakhstan's massive off-shore Kashagan deposit, a bid that was blocked by the consortia partners. In the end the partners were forced to allow Kazakhstan's own national company (Kazmunaigaz) to acquire half the BG stake and absorbed the other half themselves. CNPC did manage to acquire the small North Buzachi field, and then finally in 2005 CNPC purchased the assets of PetroKazakhstan, giving them the assets from the Kumkol field and shared control of the Shymkent refinery (with Kazmunaigaz). The Chinese have made a major financial commitment to securing oil from Kazakhstan, paying over \$4 billion for PetroKazakhstan, and planning a pipeline which will run from Atyrau through Kenkiyak, on to Kumkol, Atasu, and then Alashankou on the Kazakh-Chinese border. By late 2005 two stretches were already operational and construction on the most expensive link, from Kenkiyak to Kumkol, had been authorized.

China's rise need not be at Russia's expense, but might well contribute to Moscow, Astana and Beijing's mutual advantage. Should Russia move forward with plans for a new pipeline to bring Western Siberian oil to China, there may well be extra ca-

capacity for Kazakh oil to move north to add supply to this route as well. But these developments would reduce the potential for some Kazakh oil fields, as yet undeveloped, to send exports westward. This need not be bad for the U.S. or Europe, for a China able to meet its energy needs might be a much less dangerous global neighbor.

China is going to compete head on with Russia for access to Turkmenistan's gas reserves. The Chinese have contracted to begin moving up to 30 bcm of Turkmen gas annually in 2009, through a pipeline which will go through Kazakhstan, linking up with the existing Bukhara-Tashkent-Almaty pipeline and extending it to the border as Alashankou. The Chinese are also negotiating to get Kazakh gas shipped along this route, or through a new pipeline from Ishim in Russia, to Astana, through Karaganda and eventually to Alashankou. It is hard to believe that the Chinese would support both options simultaneously, and Russia will lobby hard for the second route to be built first, as most industry analysts do not believe that Turkmenistan will have enough production to support contract obligations to both Russia and China.

For several of these land-locked states selling through Russia is not such a bad deal. This is particularly true for Uzbekistan, which will be trading bad-paying customers in Central Asia for limited access to European markets. The Uzbeks and Russians negotiated a \$1 billion, 35 year production sharing agreement to develop a number of very promising Uzbek deposits in 2004, including the Shakhpakhty field in the Ust Urt peninsula. The list of projects was expanded in 2005, when among others the Kandym-Khauzduk-Shady gas field in central Uzbekistan was added. While Uzbek president Islam Karimov has tried to depict the turn to Russia as an energy investor as part of his country's strategic reorientation, in reality there had been only limited Western investment in Uzbekistan's oil and gas sector since independence.

As one Uzbek diplomat said, given the existing transit challenges, no other investors would put money into Uzbekistan's gas industry, let alone put these projects on a developmental fast track, save Russia. But Moscow's interest in Uzbekistan's gas seems to have sparked increased Chinese interest as well, with the China National Petroleum Company (CNPC) signing a \$600 million agreement with Uzbekneftegaz for some 23 smaller oil fields in the Bukhara area. Very little information has been made public about this agreement, but the location of these fields (near the main gas pipeline) suggests that Beijing is hopeful that there will be large amounts of associated gas available from these projects.

Investing in Uzbekistan makes good sense for Gazprom, for they are able to share investment costs, and get virtually assured supply of gas, presuming Uzbekistan's internal security risks can continue to be managed successfully. Although Uzbekistan's gas reserves are smaller than those of Turkmenistan, it is still a larger gas producer, and despite some scandals involving the country's gas industry, it is far more professionally run than that of Turkmenistan, where Niyazov's cadre policy has led to revolving-door management.

While Turkmenistan's transport options may change in a post-Niyazov world, should a more market oriented and less erratic leader succeed him, Uzbekistan's transport options will not change. The challenge will be to manage the threat of internal strife. The current agreements between the Uzbeks and Gazprom effectively bind Moscow to the Karimov regime, or to its designated successor. Much as Niyazov and his family are rumored to benefit from his arrangements with Russia, it is possible there has been some personal gain for the Uzbek ruling family in transport agreements with Russia. The president's daughter, Gulnara Karimova, was responsible for much of the gas negotiation when she was posted to the Uzbek Embassy in Moscow.

Niyazov's Turkmenistan has been a difficult friend for Moscow (the question of just how difficult provokes speculation). The complicated cash and barter deals through which Moscow purchased Turkmen gas almost certainly benefited Niyazov and his family, as they appear to have been "silent" and sometimes not-so-silent partners (as with secondary trade of bartered items) in trade transactions. Moscow will aggressively seek to insure that Niyazov's successor remains bound to Russia's gas industry as well.

While the situation may change in post-Niyazov Turkmenistan, and certainly the U.S. should be an alert bystander in any succession struggle to help facilitate positive developments, for now Turkmenistan is an unstable potential partner for the U.S. and an unattractive partner for major western oil and gas concerns. This is the major reason why the trans-Afghan pipeline project has proved difficult to realize, and would also complicate any plans to develop a Trans-Caspian gas pipeline, even if Niyazov were to sign on with promised supply for the project.

Russia's ambitions with relationship to hydroelectric power are much like those in gas—sopping up Central Asia's excess capacity creates new opportunities for using Russia's reserves more profitably. The old Soviet grid system creates the potential for Central Asian energy to be used in nearby Russia, allowing excess Russian capacity to be exported to more lucrative markets. But maximizing investment in Central Asia's enormous hydroelectric sector will not make good economic sense until RAO UES further consolidates its position within the Russian market.

But Russia does not enjoy the same potential transport monopoly on Central Asia's hydroelectric resources that it has on gas. This is an area where U.S. firms have a great interest as well, but they are going to have to work hard to secure control of the region's most attractive projects. China is eager to buy up any and all surplus electric power. The Russians are interested in supplying this market, as are the Kazakhs, who are planning a joint project with China to develop a \$4 billion coal-fired power plant at Ekibastuz, near the Russian-Chinese border. Kyrgyzstan also is interested in selling hydroelectric power to China. In both the Kazakh and Kyrgyz cases the hope is that such purchases might make China less aggressive about diverting upstream water that traditionally flowed into Central Asia. Tajikistan is attracted by the Chinese market, and even more by the prospect of exporting surplus energy to Afghanistan, and then on to the large markets in India and Pakistan. Such a project is particularly interesting to U.S. authorities. It would have a developmental impact in Afghanistan and would lead Tajikistan to diversify its resource ownership base beyond Russia.

"Foreign" interest, such as that of Iran, or of the U.S. company A.E.S., has sparked Russian activity in this sector, but in general Moscow has been able to play a waiting game, signing long-term contracts with signing bonuses that are partly based on debt forgiveness, and require minimal short term investment on the Russian side.

They have also done a good job of getting the Kyrgyz and Tajiks to compete for Russian investment priority, which because of Oleg Deripaska's purchase of hydroelectric dependent Turajunzade Aluminum works has gone largely to Tajikistan. In fact, Deripaska has created a dominating position for himself in Tajikistan, through his primary and secondary (largely in the Tajik service sector) investments. This does not preclude the U.S. developing an increasing position in Tajikistan's economy, but given Russia's multiple levers, the challenge is a difficult one.

#### DRUGS AND THE CRIMINALIZATION OF THE ECONOMIES OF THE REGION

One of the by-products of the U.S.-led international campaign in Afghanistan is the increase in opium and heroin coming through Central Asia in the last five years. This in turn has helped foster the criminalization of these economies. Two models are prevalent in the region, criminal groups insinuating themselves into the government, and governments facilitating criminal trade directly. This has had a more deleterious effect in some countries, like Tajikistan, and increasingly in Kyrgyzstan, than in others. In both these countries criminal groups have been able to suborn state authorities. The degree to which this has occurred in Kyrgyzstan has become shockingly apparent over the past year or so.

We can only speculate on the scale of official collusion in the second set of states, for as narcotics interdiction programs have become more successful in Tajikistan (and they have, to credit of U.S. and U.N. sponsored efforts) the trade has moved more into Uzbekistan and Turkmenistan, where it appears that government officials may be actively facilitating this trade. But as this is a conclusion based on rumor and innuendo, it is hard to know how much to credit it, or how high up such collusion (or active involvement) may go. It is well known that terrorist and criminal groups have used the drug trade to facilitate their activities, but governments in the region have the same capacity and much greater ease in doing this. Moreover, the drug trade creates a ready source of money to facilitate patronage networks.

#### THE THREAT OF EXTREMIST IDEOLOGIES AND THE CRISIS OF COMPETENCE

This is an extremely important topic, and as I have written on it extensively, and testified on it in previous congressional hearings, I will make only relatively brief comment on it now, summarizing these earlier findings.

As is true in so many areas of the world, there are religiously-inspired terrorist groups targeting the governments of this region, groups which consider themselves part of the global jihadist network. Some of these are derivative groups of the Islamic Movement of Uzbekistan (IMU) whose formal remnants remain tied to al Qaeda. Others are more locally based and have sprung up in the post-September 11 world. These groups may or may not have external financial support, but more importantly, the scale of their activity is such that local business (or political) inter-

ests are capable of supporting them. Their potential for successful mobilization is not the result of their financial means, but of popular dissatisfaction.

A much larger and more problematic group is Hizb' ut-Tahrir (HT), a clandestine (and throughout the region an illegal) radical Islamic organization, the avowed intention of which is to restore an Islamic caliphate. The very nature of its goal means the organization is revolutionary, and though it formally condones the use of violence (at least at the current stage), it is unclear whether its members—as individuals—are attracted to the use of violence to achieve their goals. The message of the group (at least as it is manifested in some of its writings in Central Asia) is often highly intolerant of western values, and some publications have been explicitly anti-Semitic (in addition to anti-Israeli).

But in many parts of Central Asia HT has become a major social force among the younger generation, and in parts of southern Kyrgyzstan it operates openly. It doesn't seem to me that HT is capable of overthrowing the state anywhere in the region, but its social potential could be used by those eager to oust a regime (in Kyrgyzstan, in Uzbekistan, and maybe at some point in the future in Tajikistan; in Kazakhstan its potential is more locally confined, and in Turkmenistan it does not seem to be in evidence to the same degree). The presence of HT throughout the region has worked to the advantage of the Islamic establishment more generally, and this is particularly true in Uzbekistan, where the degree of religious ferment within the clergy loyal to the regime has gone relatively unnoticed by outsiders. Islam remains one of the few bases of legitimacy for the Uzbek regime (be it that of Karimov or of a successor), and, as I have argued elsewhere, Uzbekistan's secular leaders do not seem to understand the potential political dynamism of what they see as a largely conservative and traditional social force. Central Asia's religious revival, although more radical in content than western observers initially anticipated, need not be antithetical to U.S. interests, although in a number of countries it will slow (and possibly even preclude) the development of secular democracies. But it need not keep them from developing into more participatory societies, with free market economies. The greatest danger is not Islam, or the nature of the region's Islamic revival, but how the leaders of these countries will orient themselves to these developments. On this question, as on so many others, Central Asia's leaders may be undone by their own incompetence and vanity.

#### SOME SUGGESTIONS

My testimony has focused on U.S. expectations more than U.S. policy, and created a sense of how relatively limited U.S. options may be. But in closing I would like to offer suggestions on some positive steps that we might take to enhance the chance of good outcomes in the future. I urge that we continue to provide foreign assistance to all of the governments of the region (regardless of their human rights records) for programs that the U.S. believes important for the development of civil societies and transparent economies in the region. Our "sticks" have been ineffective, so let us focus on the "carrots." The U.S. should not support the mechanisms of repression, but it should support projects that address:

- Legal transparency in the economy, including laws protecting property, and the mechanisms of executing and securing foreign investment.
- Legal training, including legal education, and the training and retraining of judges, according to curricula that meet western standards
- English language training, with particular attention to rural areas
- Science and technology training in primary and secondary schools, with attention to rural areas
- Enhancing scholarship opportunities so that students from Central Asia can pursue higher education in the U.S.
- Increased attention to employment opportunities after degree completion, through local government supported employment "agencies" in country, and enhanced opportunities for employment in the U.S. for those from closed societies in the region.

#### **STATEMENT OF MS. PAULA SCHRIEFER, DIRECTOR OF RIGHTS PROGRAMS, FREEDOM HOUSE**

Ms. SCHRIEFER. Thank you, Mr. Chairman, for allowing us to participate in this panel as well. As an organization that monitors and analyzes information about the state of freedom around the

world, as well as one that provides direct support to democracy activists and human rights defenders in many parts of the world, Freedom House is able to offer a somewhat unique perspective on the state of democracy and human rights in Central Asia. Our annual reports and surveys are informed and complemented by the direct experience of our on-ground staff, who have been working directly with human rights defenders and journalists in Kazakhstan, Kyrgyzstan and until recently, Tajikistan and Uzbekistan.

According to the 2006 edition of *Freedom in the World*, our annual survey of political rights and civil liberties, Kyrgyzstan is the only country in Central Asia that has improved its ratings, bringing it into the category of those countries we refer to as partly free. And I would note relatively at the bottom of that category.

And while Kazakhstan and Tajikistan have remained entirely stagnant on their poor rankings, Uzbekistan has slid to the very bottom of our scale of now free countries joining Turkmenistan and only six other countries in the entire world that Freedom House ranks as the world's very most repressive regimes.

In an effort to save time I will quickly highlight the key findings of just two of these countries, the best and one of the worst, and the best and one of the worst, and the rest of those countries can be studied in more detail in the written testimony in the annex that we have presented with our full reports.

I will start with Kyrgyzstan. According to the 2006 edition of *Freedom in the World*, which evaluates the state of freedom during the 2005 calendar year, Kyrgyzstan received a five out of a worst possible seven in political rights and a four out of the worst possible seven in civil liberties. The holding as was mentioned before of reasonably free and competitive Presidential elections in July, modest improvements in freedom of the media, assembly and association, did leave Freedom House to upgrade Kyrgyzstan's overall ranking to partly free for the first time since in 1999.

Nonetheless, it is important to note that while the March 2005 Tulip revolution did bring improvements in media and civil society freedoms, the country's stability was by compromised throughout the year by divisions within the new leadership, corruption issues, and crime, as well as a worsening security situation and questions about whether or not the new government truly represents a break from the practices of previous administrations.

Kazakhstan, actually, I think I will skip Kazakhstan. I think that has been covered fairly well by my colleagues.

I will move to Uzbekistan, which, as I mentioned, is the only Central Asian country to actually decline in our freedom in the world ratings in Central Asia joining Turkmenistan at the bottom of the scale. This downgrade was largely due to the government's violent suppression of mass demonstrations in the city of Andijian in May, in which hundreds of largely unarmed civilians were certainly killed, although the exact statistics are hard to tell, given the lack of access that journalists and others were given.

Moreover, the aftermath of Andijian has produced as was mentioned by my colleague, an intensified onslaught by the government against independent media, civil society organizations, and human rights activists, particularly those with ties to Western governments or groups regarded as posing a potential challenge to the re-

gime. Within the past 6 months alone, Uzbekistan has closed the local offices of the Eurasia Foundation, the UN High Commissioner for Refugees, the American Bar Association's CEELI Program, and Freedom House claiming that organizations were disrupting the country's internal affairs. In addition, RFE/RFL's journalists have not been accredited. More importantly, some 200 domestic non-profit organizations have been forced to shut down in this period.

Given this relatively bleak picture in the region, what can and should be done? First, I think we should recognize that certainly outside influences do affect the behavior of these governments to some extent. Some of these influences serve to embolden authoritarian behavior, and others serve to deter backsliding and promote democratic progress. Russia's own decline into a not free country and its reassertion of interest in the region certainly provides these governments with examples of laws and practices to increase control over civil society, repress media and political opposition, typically, under the excuse of national security interests. At the same time, our own sustained engagement, yes, long-term engagement, can and does have an influence on these countries as is seen in some of the examples I will provide.

Pressure by the U.S. Government and the presence of international organizations have already been seen to help improve human rights and fundamental freedoms of association and speech in Kyrgyzstan and Kazakhstan. And the United States needs to ensure continuing support for courageous human rights defenders throughout the region. Protection and expansion of human rights has to be a centerpiece of all democracy efforts, not something seen as peripheral or marginal.

How else can we do this? We need to address the free flow of information around the region. For instance, the private printing press in Kyrgyzstan supported by the U.S. Government proved a critical element in holding open and free debate and free press during the transition in Kyrgyzstan. Just as important is the role of radio and TV broadcasting, and we should look to how these critical outlets can be broadcast into Uzbekistan and other areas.

Thirdly, we need to continue to facilitate a greater free flow of information across border linkages across the region among democracy activists, human rights defenders, nation think tanks and free press. We certainly recognize that our sustained engagement means difficult policy positions of the U.S. Government and our allies. The U.S. Government should be commended for its stand on human rights in Uzbekistan. The willingness to unequivocally call for an international investigation into the events of Andijian should be praised. However, since that time, we think that the United States policy should be further clarified with regard to our relations with this country. We do urge that the USG adopt further measures including targeted sanctions that might make it clear that we think that the Uzbek government and its financial and other backers are making the wrong decisions about the direction of the country and more importantly that make it clear to others in the country that the United States is still interested in supporting the Uzbek people, particularly those struggling for the right to engage in universally accepted rights.

Finally, I want to note that the struggle for democracy in Kyrgyzstan is not complete. As the country reviews its own way forward, there are concerns about media freedom, corruption and needed constitutional reforms. The United States has to provide support to the government lead by President Bakiev, but it should not do so unconditionally. There are reformers in Kyrgyzstan that should be invested in, while at the same time, support should be continued to watch dog groups and coalitions, such as the Voice of Freedom, who can effectively provide checks and balances on powers and advocate for legislative change.

Finally, I just want to say with sustained engagement, particularly on the issue of human rights in support to those who defend these rights, the U.S. can still be a positive influence, which can help counteract internal authoritarian tendencies and the repressive examples of neighboring countries. Thank you.

[The prepared statement of Ms. Schriefer follows:]

PREPARED STATEMENT OF MS. PAULA SCHRIEFER, DIRECTOR OF RIGHTS PROGRAMS,  
FREEDOM HOUSE

As an organization that monitors and analyzes information about the state of freedom around the world, as well as one that provides direct support to democracy activists and human rights defenders in many parts of the world, Freedom House is able to offer a somewhat unique perspective on the state of democracy and human rights in Central Asia. Our annual series of reports and surveys on global freedom are informed and complemented by the direct experience of our on-ground staff who have been working directly with human rights defenders and journalists in Kazakhstan, Kyrgyzstan, and until recently Tajikistan and Uzbekistan.

Looking at a global picture, the expansion of freedom has been on a generally positive trajectory since 1972, when we first launched *Freedom in the World*, our annual survey of political rights and civil liberties around the world. Yet, while the general trend throughout the world has seen more and more countries joining the ranks of the Free and Partly Free countries according to our broad rankings, the countries of Central Asia have for the most part remained Not Free, maintaining fundamental restrictions on political rights and civil liberties, with only one exception.

According to the 2006 edition of *Freedom in the World*, due out this summer, Kyrgyzstan is the only country in Central Asia that has improved its ratings to Partly Free.

And while Kazakhstan and Tajikistan have remained entirely stagnate on their poor rankings, Uzbekistan has slid to the very bottom of our scale, joining Turkmenistan and only six other countries that Freedom House ranks as the world's most repressive regimes (Burma, Cuba, Libya, North Korea, Sudan, and Syria).

I will quickly highlight the key findings in each country, but a more detailed analysis of the current state of political rights and civil liberties in all five countries can be found in the annex to this testimony.

*Kyrgyzstan*

*Freedom in the World* ratings for 2005:

Political Rights: 5

Civil Liberties: 4

According to the 2006 edition of *Freedom in the World*, which evaluates the state of freedom during the 2005 calendar year, Kyrgyzstan received a 5 out of a worst possible 7 in political rights and a 4 out of 7 in civil liberties.

The holding of reasonably free and competitive presidential elections in July, and modest improvements in freedom of the media, assembly, and association led Freedom House to upgrade Kyrgyzstan's overall ranking to Partly Free in 2005 for the first time since 1999.

Nonetheless, while Kyrgyzstan may fare better than the rest of the region according to the FIW rankings, but it is still has a far to go before reaching actual "Free" status. Thus, while the March 2005 Tulip Revolution brought improvements in media and civil society freedoms, the country's stability was compromised throughout the year by divisions within the new leadership, a worsening security situation,



and questions about whether the new government represented a genuine break from the previous administration.

#### *Kazakhstan*

*Freedom in the World* ratings for 2005:

Political Rights: 6

Civil Liberties: 5

Kazakhstan held its scores of 6 out of a worst 7 in political rights and 5 out of 7 in civil liberties for the year 2005.

During the months preceding the December 4, 2005, presidential election, the Kazakh government intensified pressure on the country's civil society sector through harassment of, and attacks against, opposition activists and independent journalists.

Throughout the year, members of the opposition alliance, For a Just Kazakhstan, faced threats and physical assaults, including the death of one opposition leader and the apparent abduction of another member's daughter. Media outlets were subjected to intense pressures, with several being closed down, others being hit with law suits, and print runs being seized or refused altogether leading up to the election.

The dominant role played by Nazarbayev in Kazakhstan's political life led to a predictably overwhelming victory for the incumbent in an election that most international observers, including the OSCE, found did not meet democratic standards.

While two potentially damaging draft laws to restrict NGO activity put forth by the parliament in June 2005 were ultimately struck down by the Constitutional Council as unconstitutional, the space for civil society to operate remains precarious.

#### *Tajikistan*

*Freedom in the World* ratings for 2005:

Political Rights: 6

Civil Liberties: 5

Tajikistan also held its scores of 6 out of a worst 7 in political rights and 5 out of 7 in civil liberties for the year 2005.

In a pattern similar to the one just documented leading up to the presidential election in Kazakhstan, the overwhelming political dominance of President Rakhmonov's ruling People's Democratic Party (PDP) in Tajikistan ensured it an easy, and essentially uncontested, victory in the February 2005 parliamentary elections.

Much like in Kazakhstan, the government continued to consolidate its power throughout the year by clamping down on the media, closing a printing house and two private television stations, and working to sideline perceived and actual political rivals.

The judiciary is heavily influenced by the executive branch, police frequently conduct arbitrary arrests and beat detainees to extract confessions, and prison conditions are often life threatening due to overcrowding and lack of sanitation.

#### *Turkmenistan*

*Freedom in the World* ratings for 2005:

Political Rights: 7

Civil Liberties: 7

Turkmenistan is a model repressive regime, receiving a lowest possible 7 in both political rights and civil liberties since 1993. President Niyazov continues to enjoy virtually absolute power over all branches and levels of government in Turkmenistan meaning that citizens have absolutely no ability to influence or change their government democratically.

The state security services regularly monitor the activities of citizens and foreign nationals, severely limiting open and free private discussion.

Freedom of speech and the press is severely restricted by the government. Specifically, the government controls all radio and television broadcasts and print media. Reports of dissenting political views are banned, as are even mild forms of criticism of the president. Subscriptions to foreign newspapers and magazines are forbidden, and foreign journalists have few opportunities to visit Turkmenistan.

The judicial system is subservient to the president, who appoints and removes judges for five-year terms without legislative review. The authorities frequently deny rights of due process, including public trials and access to defense attorneys. Police abuse and torture of suspects and prisoners, often to obtain confessions, is widespread.

*Uzbekistan*

*Freedom in the World* ratings for 2005:

Political Rights: 7

Civil Liberties: 7

Uzbekistan, as the only Central Asian country to decline in the 2006 *Freedom in the World* ratings, joined Turkmenistan at the bottom of Freedom House's ratings. This downgrade is due to the government's violent suppression of a mass public demonstration in the city of Andijon in May in which hundreds of largely unarmed civilians were killed and the subsequent crackdown against independent media and the civil society sector.

The aftermath of Andijon has produced an intensified onslaught by the government against independent media, civil society organizations, and human rights activists, particularly those with ties to Western governments or groups regarded as posing a potential challenge to the regime.

Within the past six months, Uzbekistan has also closed the local offices of the Eurasia Foundation, the UN High Commissioner for Refugees, ABA CEELI, and Freedom House claiming that the organizations were disrupting the country's internal affairs and citing as proof last year's demonstrations in Andijan. Some 200 domestic nonprofit organizations have also been forced to shut down.

## RECOMMENDATIONS:

So, given this relatively bleak picture, what can be done?

First, we should recognize that outside influences do affect the behavior of these governments. Some of them serve to embolden authoritarian behavior and others can serve to deter backsliding and promote democratic progress. Russia's own decline into a not-free country and its reassertion of interest in the region provides these governments with examples of laws and practices to increase control over civil society and repress media and political opposition, typically under the guise of national security.

At the same time, our own sustained engagement can and does have a great influence on these countries, as seen in some of the examples I will provide. Pressure by the U.S. government and the presence of international organization has helped to improve human rights and fundamental freedoms of association and speech in Kyrgyzstan and Kazakhstan and the U.S. needs to ensure continuing support for courageous human rights defenders throughout the region. Protection and expansion of human rights has to be at the centerpiece of all democracy efforts—not something seen as peripheral or marginal. We have been dismayed that faced with budget cuts USAID has signaled its willingness to cut human rights programs first. This is a major strategic mistake. If not for the local advocacy efforts of over 100 civil society groups in Kazakhstan combined with international pressure, a much restrictive NGO law would have been enacted last year. Without the reporting of arrests, detentions, law suits, and administrative actions against political opposition, independent media outlets, and human rights defenders, many of these activists and organizations would remain in jail or afraid to raise their concerns, as is increasingly the case in repressive Uzbekistan.

Secondly, we need to address the need for free flow of information around the region. The private printing press in Kyrgyzstan, supported by the US Government, proved as a critical element in holding open free debate and free press during the transition in Kyrgyzstan. Just as important is the role of radio and TV broadcasting, and we should look to how these critical outlets can be broadcast into Uzbek and other areas. The US needs to back such efforts, including fully condemning the pressure against RFE/RFL local journalists and operations.

Thirdly, we need to facilitate more cross border linkages among democracy activists, human rights defenders, nascent think tanks, and free press. Together they will have a larger voice within regional and international fora, including the OSCE. The capacity of activists varies greatly across the region. With the help of activists in its neighboring countries, Uzbek activists might be assured that someone will transfer what is happening in their country to regional and international forums and that democracy and human rights does not fall outside of arrangements, agreements, and regional development.

We recognize that our sustained engagement means difficult policy positions of the U.S. government and our allies. The U.S. government should be commended for its stand on human rights in Uzbekistan. The willingness to unequivocally call for an international investigation into the terrible events of Andijon should be praised.

However, since that time, we believe that U.S. policy needs to be further clarified with regard to relations between our countries. The U.S. has not even gone so far as the EU in imposing travel sanctions. We therefore urge the USG to adopt further

measures, including targeted sanctions, that make it clear that (1) we think that the Uzbek government and its financial and other backers are making the wrong decisions about the direction of the country and (2) make clear to others in the country that the U.S. is still interested in supporting the Uzbek people, especially those struggling for the right to engage in universally accepted rights. The U.S. government needs to demonstrate that it has not abandoned those on the ground, despite the restrictions on foreign organizations like Freedom House.

Finally, the struggle for democracy in Kyrgyzstan is not over. As the country reviews its own way forward, there are concerns about media freedom, corruption, and needed constitutional reforms. The U.S. should provide support to the government led by President Bakiyev, but it should not do so unconditionally. There are reform-minded elements within the KG regime, however, the country is increasingly unstable and may backslide. If KG does not continue down the path of general reform the lesson Central Asia is taking from the Tulip revolution is democracy that brings instability and chaos. There are reformers in KG that we should invest in, while at the same time, support watchdog groups and coalitions like Voice of Freedom who can effectively provide checks and balance on powers and advocate for legislative change.

With sustained engagement, particularly on the issues of human rights, and support to those that defend these rights and keep open an operating environment for citizens to exercise their rights, the US can be the positive influence which counteracts both internal authoritarian tendencies and the repressive examples of neighboring countries.

Mr. McCOTTER. Thank you. As we enter the question phase I would like to ask two questions that Chairwoman Ros-Lehtinen has specifically asked to be posited to you, and after that, I would go to my colleague, Representative Chabot. The first question she would like to have answered is please comment on the recent request by the Kyrgyz government for a significant increase in rent for the use of their air base. Was the request prompted by Russia's growing influence in Kyrgyzstan? I would let whoever cares to pipe up pipe up.

Mr. BOUCHER. I think Jim and I probably both have to say something. Do you want to start?

Mr. MACDOUGALL. Sure. Mr. Chairman, Congressman Chabot, as I mentioned in my statement, we are currently renegotiating the terms of our access in Kyrgyzstan at Manas Air Base. The terms under which we are operating there now were decided in 2001, late 2001 after 9/11. And I think both sides recognize and agree that they need to be updated. Part of what has to be updated is the level of compensation, financial compensation we provide to the Kyrgyz government and private landholders to whom we lease land adjacent to the airport. So I think it is fair to say we will pay more than we have on prices based on 2001 terms. How much more remains to be the subject of this negotiation.

As to what prompted the statements of the President, I think perhaps Assistant Secretary Boucher will comment on this, but I do not have any particular insight as to how much this might have been prompted by pressure from the Russians, the Chinese or anybody else. I think to be fair that would have to be something to ask the Kyrgyz side.

Mr. BOUCHER. Sir, if I could just note, I think there is some recognition in Kyrgyzstan as well as in Russia and elsewhere, that having United States and coalition forces operating out of this base contributes to the war on terrorism, contributes to the security of all the people in region, stopping the flow of terrorists, helping with the stopping of the flow of drugs and things like that. To the extent it contributes to stability of the whole region, including for neigh-

bors like Russia, I think there is some recognition that it is in all our interests for us to continue the operations there. It is on that basis that we are discussing this with the Kyrgyz government. We want to stay. We think they want us to stay.

As far as I can tell and I have not gone all the way back on this, I have only started watching this recently, that the motivations by and large coming from the Kyrgyz government has to do with financial cost to them of having the base there and the benefits they receive from it. They receive actually a lot of benefits to their economy. We are willing to increase the amount we pay for the cost of operating, having the base there and the land and things like that. So I hope we can work out an arrangement. We are certainly prepared to negotiate. They have used a variety of means to communicate to us that they want to get this done quickly and we are working on it to try to do that with them.

Mr. MCCOTTER. Thank you. The second question she had was if the United States decides not to pay and our military forces are obligated to leave as they did from Uzbekistan, how significant would the implications be on our military operations in the region and in Afghanistan in particular?

Mr. MACDOUGALL. The implications of us having to leave, to terminate operations at Manas would be significant. As I mentioned, this is a landlocked region, and we require overflight and then basing rights somewhere in the region. We need refueling rights, et cetera. There are other options we can pursue and we are certainly looking into those. We are talking to other countries but it would be a significant loss to our operations. Not to say we would stop doing what we are doing in Afghanistan, but it would be considerably more difficult without access to Kyrgyzstan.

Mr. MCCOTTER. Thank you. Representative Chabot.

Mr. CHABOT. Thank you very much, Mr. Chairman. Just a couple of questions. I apologize for being late. I have three Committee hearings going on, and numerous things, and the votes kind of put everybody back. I apologize for not hearing your testimony. I intend to review it after the hearing.

What strategy do we have to prevent Russia and China and especially Iran from seeking to dominate the region? Anybody who would like to take that on, we would be happy to hear from you.

Mr. BOUCHER. Why don't I start, sir? I think the first thing is that we do not see it as a competition with Russia and China. What we think is these countries need to be independent and they need to be able to exercise independent choices and a lot of what we do there is to give governments and peoples of the region the opportunity to make choices. Some of the pipeline arrangements that we have been instrumental in working out across from the Caspian to Turkey, some of the opportunities for export of power for example that we are working on in terms of exporting power to the south by electric lines to Afghanistan down into Pakistan. The roads systems, we are looking to try to develop from Almonte to Karachi. This gives these countries more choices, more places to sell their goods, sell their energy, more sources of supply. And it keeps them from being stuck and bottled up between two great powers, Russia and China.

I think that is basically our role to give them options. Iran has a lot of activity in the region, some places more than others. A lot of it is commercial. Some of it is in the energy sector. They do scholarships and things like that. We follow this very closely. We keep in touch with other governments who watch what they are doing, and I guess you would say the basic effort is to work with them, counsel them, talk to them so everybody is careful that the kind of trouble Iran causes in other countries they do not start causing in this region. Iran is a neighbor to many of these countries. It has energy relationships and other relationships, historical ones, so we kind of understand there will be a neighborly relationship, but we also are well aware and try to make them aware of what Iran is up to in other places to try to make sure Iran does not start that sort of thing in this region.

Mr. CHABOT. Thank you. Let me ask another question. I am interested in China's growing economic influence in the region, in particular if you could comment on the implication of the recently finished China-Kazakhstan oil pipeline, and if you could perhaps go into that a little bit.

Mr. BOUCHER. China has very large and growing energy needs, as we all know, and is looking to acquire energy in a lot of places, including Central Asia. They have had some limited imports in the past and the pipeline will certainly expand that. As a basic matter, I think it is probably good. Another option for export for the countries. It means that their sales are not all bottled up into one market or one company. There has been active competition, of course, to acquire oil resources in this region, not only the Chinese and Russians, but some places the American firms are involved. I know Indian firms are actively bidding on it. So I expect you will see that in the future, to develop multiple opportunities, multiple customers.

Mr. CHABOT. Finally, I am concerned, and I know at that region it has a reputation relative to human trafficking, and I would like to know what our efforts have been to influence any or all of the countries over there to do what we can to prevent that ongoing practice from continuing. And again, I would open it up to anybody that would like to take it over.

Mr. BOUCHER. First, we follow this carefully. We report on it. We raise it with governments. Who are actually in the process now of preparing our annual reports on trafficking in the region. And it is a matter of quite a bit of concern. We have seen some progress in some places. We have seen some progress in places like Uzbekistan, which is hard to do almost anything in, but it is something where we do pursue trafficking questions and try to get progress across the board throughout the region, including in difficult places like Uzbekistan.

Mr. CHABOT. Thank you very much. Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. MCCOTTER. Thank you I just have a couple of questions. It was touched upon the Shanghai Cooperation Organization. I would like to hear more specifically how we view that entity, especially as I believe recently there was some talk, I think it was out of Russia, about the potential of Iran joining it. I would like to hear just some quick overview, because I am going to try to get you out of

here by four, just a quick overview of that entity and its role within the region.

Mr. BOUCHER. There are not many regional organizations within this region, and none of them have a whole lot of power and authority. The Shanghai Cooperation Organization is one of the organizations that has been around for a while. It has subcommittees on various things, so it is a forum for discussion among the members. I know at various times, other countries have looked to participate. I think India and Afghanistan have looked at observer status in it. I do not know about Iran. That is something I would have to check on, unless Jim knows.

Mr. MCCOTTER. I brought it up because I think Iran was allowed to observe their combined military exercises between China and Russia. I do not know how much discussion they were doing, but I know they were allowing Iran to observe.

Mr. BOUCHER. Iran has observer status I am told. But we work with members of the organization. We have been rather displeased with some of the positions they have taken, we have made that clear. We try to talk to the members of the organization about ways they can enhance their cooperation without trying to squeeze out or make it more difficult for others.

Mr. MACDOUGALL. On the Shanghai Cooperation Organization, I might note that the history of it, it was designed as an organization to settle border issues between China and the states of the former Soviet Union. What started out quite benign and actually had some success in settling these border issues. Uzbekistan joined in 2001, and it came under its current configuration of members. Since that time, there has been a lot of discussion on economic issues, which seems to make sense, there is a lot of economic issues that need to be resolved. Just recently in the last communique from last summer, in Astana, Kazakhstan, there was a statement that read in part, and I quote loosely, "The coalition forces fighting the war on terrorism should consider setting a date to terminate their basing in the region," and this of course is of concern to us. We are following this organization very closely, they have a summit scheduled in Beijing, China to celebrate the fifth anniversary of the organization on June 15, and we are encouraging our partners in the region to move this organization in a direction that would be of positive result for the region but at the same time wouldn't be anti-Western, anticoalition, anti-U.S., that sort of thing. We are hoping that is the direction the organization takes, but time will tell and we will naturally have to respond accordingly.

Ms. OLCOTT. Can I say something?

Mr. MCCOTTER. It is still a free country.

Ms. OLCOTT. Can I say something about the China relationship on the Shanghai Cooperation Organization? I think that one of the things that the states in this region are grappling with is looking for ways to manage their relationship with China, and they do a much better job, I think, on a bilateral basis of managing their relationship with Russia. We don't always see it because the way they present it to us is that Russia is a bully, but I think that over the last several years, they have become more self-confident in their dealing with Russia and, I would argue, in some cases more successful. But all these states, I think, see that China is one that

is harder to manage in the long term, and that is where I think the Shanghai Cooperation Organization for the states in the region provides real advantages. You can also say it does some negative things, too, but it creates a forum in which Russia and China are present and the two can be played against each other. And people off the record from the region, diplomats from the region have talked about how they do this, so this isn't me simply inferring it, I am not privy to the meetings, but I think that a fair amount of this really does go on.

I think similarly that the organization really does serve, as I alluded to in the testimony and I talk about greater length in the testimony, it does create a balance. It does use something to use against us, to use against the Western organizations. And I think for some questions it is really a confusion for the leaders in this region because they are being told by states that they have to relate to that are really important to them, the United States-Europe on one side, Russia and China on the other. They are getting clashed in multiple value systems. And I think one of the things that they are trying to work out, and that obviously, we have to be even more sensitive to is helping them work it out in ways that are not directly conflictual be reinforce our set of values. But I think the organization is becoming an ever more important one for the countries of this region in part because China throughout the region is becoming a dominant economic player.

Mr. McCOTTER. You had said something earlier about what can be undone by their own vanity and incompetence. And I would argue that it is always very dangerous for a mouse to try to start a fight or pick sides between two separate elephants, because you generally tend to get squashed in the end. And it seems to me, too, that that sounds more like a Cold War definition of playing the great powers against themselves, and I find it fascinating that the West and United States were to try on one side, and then Communist China and the reStalinizing Russia are on the other side. It sounds like a very familiar refrain. But I appreciate that. Which brings me to our next question, and I am trying to get these last two out quick, especially in relation, you talked about China.

There was talk of China bringing and buying up energy resources. Now, I won't go into a diatribe about where I know they got a lot of that foreign investment money from. But my question would be, what are we doing both economically and in terms of democracy at the grassroots level in these countries of central Asia to start fostering the growth of a democratic society? Because it seems to me that when we talk about the next generation of leadership within those countries, the Berlin Wall was, what, 1989, the Soviet Union fell apart. And, at the end of the day, we have had a generation already, and I am just kind of curious as to how we can juxtapose what we are doing now to what we failed to do for that past generation that has already been missed.

Ms. SCHRIEFER. Now, it is such an important question. I think that to look at sort of what we are doing to foster democracy in central Asia, it is helpful to look at democracy fostering efforts in other parts of the former Soviet Union closer to Europe. For instance, Ukraine, which of course had a number of advantages. It actually has the pull of eventually possibly being a member of the European

Union, which of course Central Asia does not have, but it also has historical ties to Poland, some historical ties to democracy, et cetera. But I think that the success in Ukraine, and I think the Ukraine has been a success in the past year including the most recent election, has been that what you saw was a gradual mentality shift among the actual population who started to actually demand that the institutions that were supposedly set up to be democratic institutions eventually should actually function like democratic institutions, as opposed to just sort of fake institutions that would allow Ukraine access to Western trade agreements and into the sort of Western club of democracies.

It is going to take a lot longer than that to create that mentality shift in central Asia, which is what is needed to really bring about democratic change. And that is why you hear everyone harping here about this sort of long-term approach. It is not just because NGOs want to keep themselves in business for a long time; it is a very realistic picture of what it is going to take to bring about to shift that mentality change in those countries. And it is happening. There are impressive networks of young people who are out there monitoring things that are being done who are working at the grass roots level who are directly interacting with local government officials, but it is going to be a few generations I think. And, again, given that Central Asia doesn't have this pull of a European Union, given that it has got these players, Russia and China against each other as well as Russia and China against the West, it is a complex environment, but it means that we have to stay engaged and we have to be committed to staying engaged for the long term.

Mr. McCOTTER. I appreciate that, because that is the concern. We talk about democracy. Democracies to be functional have to be representative. But as we found out with Hamas, sometimes that doesn't always work out to the advantage of the interests we would like to see pursued or promoted.

Ms. DUGAN. Just to follow on quickly and echo the sentiments of my colleague from Freedom House. The Ukraine is perhaps the best example; Georgia is another one. Both of these are places where organizations like IRI and NDI worked for years and years, and in the face of people saying to us it is never going to happen here, forget about it, pack your bags and leave, still, they were wrong. And we knew that it would be a function of time and a function of a lot of hard work that is not particularly sexy and never shows up in any newspaper anywhere but puts in place very methodically, very incrementally those foundational blocks upon which strong democratic institutions can stand. And so perhaps it also presents to me an opportunity to appeal to Committee support for—and those of my colleagues from the administration for continued attention, especially in places like the Kyrgyz Republic, which is a place that can be looked at as a glass half empty, a glass half full.

But to be honest with you, from our perspective this is an opportunity waiting to happen. We just need to be there to keep pumping oxygen into it. Thank you.

Mr. LUTEN. I would just offer that in addition to the comments just made, that our support of the grassroots level in both demo-



cratic development and economic development are pretty broad-based. We, for instance, in education, we work in business education, we support civic education. Currently there is a program under which more than 100,000 students in the region receive basic civics training across several countries. In the economics sphere, and again using the Ukraine example, direct support for what we would consider to be democracy promotion activities is important, but sustained support for helping develop decentralized power, helping to develop at the local level local reform, small business development, small business finance, better municipal administration, hospital administration, health care reform and education reform, to the extent that they represent good government, improve the relationship between what government does for its citizens rather than to them, all of that in addition to working with policy dialogue at the top, with all of these things together—hopefully we can, the time line is longer, but hopefully we will continue to progress toward the same type of results that we are seeing in other countries.

Mr. MCCOTTER. That is heartening to hear. It truly is. And finally, it is kind of a simple question, central Asia seems to me to be at a crossroads, and certainly it is kind of in an ideological triangle and your efforts for which I am very grateful that you are doing. They are torn between radical Islam on one end; they are torn between totalitarianism/communism on another end, and they are torn between liberal Western democracy on another. And I would think that hopefully everything that you are trying to do will incline them more toward freedom and prosperity and liberal democracy over the long haul.

Because my concern is that you have three separate types of governance that are now combating with each other ideologically in the vacuum of what was a pretty cut and dried Bolshevik experiment when it was the Soviet Union, it became bureaucratized over time. But now in that vacuum that has been created, we have been trying to fill with what we believe in and what we have experienced to be, in my mind, the greatest way and the greatest government in the face of the earth. Then you also see the rise of radical Islam. We already know the extent and the dangers of that. And you have also seen communism in the face of, I suppose almost more totalitarian fascist corporatism rising out of China.

And these countries seem to me to be right in the mid of that triangle. So I just wanted to point that out. I will spare you a last question, and I just want to thank you for being here, thank you for your patience, thanks to all my colleagues who helped to make this experience so memorable for all of you, and thank you for what you are doing for our country.

[Whereupon, at 4:30 p.m., the Subcommittee was adjourned.]

