

BTI 2008 | Tajikistan Country Report

Status Index	1-10	3.80	# 106 of 125	
Democracy	1-10	3.73	# 100 of 125	➔
Market Economy	1-10	3.86	# 104 of 125	➔
Management Index	1-10	4.48	# 87 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	6.5	HDI	0.65	GDP p.c.	\$	1,206
Pop. growth ¹	% p.a.	1.2	HDI rank of 177	122	Gini Index		32.6
Life expectancy	years	64	UN Education Index	0.90	Poverty ³	%	42.8
Urban population	%	24.7	Gender equality ²	-	Aid per capita	\$	38.8

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Tajikistan is among the few post-conflict countries that have moved quickly from war to internal stability and have formed a functioning government. President Emomali Rakhmon is widely seen as guarantor of stability and peace – internationally as well as domestically. However, because stability is seen as the primary objective, a democratization process has not been eagerly pursued by the regime. With the assumption of border control responsibilities from Russian forces, parliamentary and presidential elections in 2005 and 2006 respectively, and the ousting of oppositional figures from the government, Tajikistan has entered a new phase, leaving the postwar period behind with a post-Soviet elite still ruling the country. The president has maximized his power and popularity, but he continues to build his power base on regional affiliations.

In contrast to neighboring Kyrgyzstan, elections in Tajikistan during the review period were generally peaceful, but did not meet international standards. Civil and human rights have deteriorated and the opposition has suffered several blows. With the death of Said Abdullo Nuri, leader of the Islamic Revival Party of Tajikistan (IRPT) and Rakhmon's counterpart in the peace-building process, and the long-term imprisonment of Mahmudruzi Iskandarov, leader of the Democratic Party, the Tajik opposition has lost its most outspoken and charismatic figures.

Economic growth during the review period has been steady and robust. To have a long-term impact on poverty, the economy will have to be bolstered by continuous structural reforms in all sectors. Representatives of international financial institutions praised the Tajik government for its willingness to improve the business environment. On various occasions, President Rakhmon has highlighted his eagerness to fight corruption and has introduced several structural measures to do so. Even with a serious commitment on the part of the government, combating corruption will remain a long-term challenge.

The number of infrastructural projects, including road, bridge, tunnel and hydropower dam construction, have increased considerably. Carried out with massive international and bilateral donor support, these projects are instrumental in overcoming the country's structural constraints and boosting domestic trade. However, as the planned Rogun hydropower dam demonstrates, the interests of the Tajik government and foreign investors – in this case the Russian company Rusal – do not always coincide. Moreover, there have been growing tensions with Uzbekistan over the construction of dams in Tajikistan. The dams might render Tajikistan energy-independent, but would also cut off its neighbor from irrigation water. The Russian government's plan to expel foreign traders active in retail markets by April 2007 – but to issue six million work permits for migrants working everywhere else – has made clear Tajikistan's vulnerability to Russian policies. The government thus follows a multivectoral policy and seeks to build good relations with other partners. Cultural ties with Iran, a major investor, were highlighted on various occasions and President Rakhmon's first official trip after his re-election one-week intensive trip to China.

History and Characteristics of Transformation

After the collapse of the Soviet Union in 1991, Tajikistan descended into a five years of civil war from 1992 to 1997. At its peak from 1992 to 1993, the war killed an estimated 50,000 people from May to December 1992 and displaced approximately one-tenth of the population.

A wide range of mainly domestic but also external factors led to the outbreak of civil war in 1992. The breakup of the Soviet Union triggered a struggle for state power that was fought between various factions with changing alliances. The war started as a clash of ideologies: communism versus radical Islamism, secularism versus Islamism, democracy/liberalism versus authoritarianism. It soon became apparent that the main fault lines between these factions were regional and fraught with several sub-factions and warlords. The Tajik government, supported by the People's Front of Tajikistan (PF) under the leadership of the future President Rakhmon, had strong regional support in southeastern Kulyab. The United Tajik Opposition (UTO) had its strongholds in the Garm valley and in the Gorno Badakhshan Autonomous Region (Gorno Badakhshan Avtonomnyj Oblast' GBAO).

In 1997, after various rounds of negotiation under international mediation, the government and the rebel UTO signed a peace accord and created the National Reconciliation Commission to supervise the implementation of the peace accord. The National Reconciliation Commission's last meeting was held in 2000 and a new bicameral parliament was set up in March, formally bringing the peace process to a successful end. Tajikistan is among the few post-conflict countries that have

transitioned quickly from war to internal stability and have formed a functioning government.

Although still the poorest and among the most fragile of the CIS countries, burdened with failing infrastructures, crumbling health and education systems, and weak institutions, Tajikistan has managed to recover economically since the war. By 2000, the government had liberalized the exchange rate, prices and trade, reformed the financial sector, and privatized many lands and small enterprises. After 2000, the economy demonstrated strong growth, averaging 10% between 2001 and 2004 and slowing down to 6% in 2005. External debt was halved and poverty was reduced from 83% of the population in 1999 to 64% in 2003. However, while this growth is partly the result of structural reforms and recovery in capacity utilization, it also benefited from favorable world prices for aluminum and cotton as well as increasing remittances from Tajik migrants in Russia. The country's future development thus depends heavily on continued economic growth in Russia and Russia's future readiness to tolerate migrant workers.

Since 2000, President Rakhmon has secured regime stability – with diminishing concern for democratic norms. Neither the parliamentary elections (2000/2005), nor the presidential elections (2000/2006) can be labeled free and fair. The referendum of 2003, which approved the incumbent president's petition to stay in office until 2020, is also dubious. In the first years after the peace accord, Rakhmon pursued a divide et impera strategy that has left many opposition parties crippled or drawn into uneasy partnerships with the presidential party. The grip on individual opposition leaders gradually tightened; they were sometimes brought before court under questionable charges. As a result, formerly influential opposition forces have been marginalized. Politics in Tajikistan suffer from highly entrenched patron-client networks. Governance is exercised mainly through informal channels. Civil society is still weak and hardly existent beyond the capital and village communities. Nevertheless, the institutional framework for democracy and market reforms is in place.

The international community tolerates the regime's authoritarian style, which is reflected in the conduct of past and recent elections, the closure of media outlets and restrictions on opposition figures, because Rakhmon is seen as a guarantor of stability in an otherwise unstable region. Whereas internal cleavages have been overcome in past years partly due to the population's war-related anxiety, the potential for spillover of crises has risen in this conflict-prone region, especially from Afghanistan, Kyrgyzstan and the Ferghana valley. Its long and mountainous border with Afghanistan renders the country an important drug route, which spreads drug abuse and HIV/AIDS infections and feeds corruption.

Transformation Status

I. Democracy

1 | Stateness

Since the end of the civil war, nation-building has progressed significantly and stateness has been consolidated. The notion of Tajik stateness has been actively promoted with references to culture and history and by various symbolical acts. Since Tajik troops took over responsibility for border control from Russian forces, the country's monopoly on the use of force has finally been established throughout the entire territory. The country is not threatened in a territorial sense, but to some extent its sovereignty is undermined by regional clan interests and well-organized groups that are connected to narcotics traffic.

Monopoly on the use of force

All major groups accept the concept of a Tajik nation-state. This includes the significant Uzbek minority in the Ferghana valley and in southwest Khatlon, which has not been affected by rising tensions between Tajikistan and Uzbekistan. However, together with members of the former opposition regions (Garm and GBAO), Uzbeks are often excluded from access to government positions. Government programs to resettle whole village populations from GBAO to southeast Khatlon, officially to avert natural disaster casualties resulting from earthquakes, are said to also have the intention of achieving a more preferable ethnic balance. All citizens formally have the same civil rights, but the access to certain rights quite often necessitates a bribe. As society is re-traditionalized, women are increasingly marginalized and often informally hindered from exercising their civil rights.

State identity

Tajikistan is a secular state and the governing elite zealously defends the secular nature of the state against the perceived threat of Islamization. In doing so, the regime tolerates only one Islamic party in parliament – the only one in Central Asia – while banning and prosecuting others. Religious belief is an important part of Tajik culture, but religious dogmas have no influence on politics or the law.

No interference of religious dogmas

The state has a basic infrastructure in place and is slowly expanding. However, this infrastructure is still weak, lacks sufficient funding and does not reach all

Basic administration

rural regions, especially the mountainous areas of GBAO and the Garm valley, where state agencies, if they are present, face legal and regulatory pluralism. Extensive corruption and bureaucracy further hampers policy implementation.

2 | Political Participation

Both the 2005 parliamentary elections and the 2006 presidential elections failed to meet key OSCE criteria for democratic elections and were not conducted in accordance with domestic law. Parliamentary elections showed some improvements over previous ones, but more in technical terms than in terms of fewer irregularities on election day. Although there were five candidates, the 2006 presidential election was characterized by a marked absence of real competition. The main opposition parties chose not to contest the election as they considered the outcome a foregone conclusion. President Rakhmon rebuffed criticism over the poll by referring to cultural differences and time constraints. He hinted at future improvements and stressed that the regime is working to meet OSCE standards. Better electoral legislation, a more free environment for the media and a number of other technical aspects are required to provide a framework for genuinely democratic elections.

Free and fair
elections

After the presidential elections, the president strengthened his executive control and broadened his personal leeway within the regime. Whereas government restructuring had some positive aspects, changes in the executive branch, in the districts and in the military leadership were not as radical as many had expected. Nevertheless, former opposition figures and other outspoken individuals were ousted and replaced by people loyal to the president. The president and the presidential apparatus are not restrained by veto players. Influential actors are either co-opted into the patronage system or else risk legal prosecution if they turn against the president.

Effective power
to govern

Rights to organize and communicate politically are restricted. Under the guidance of the president's office, the government prosecutor closely monitors political parties and activities. All relevant opposition parties are systematically bullied by the regime. The strategy of co-optation has been increasingly expanded through measures aimed to marginalize or criminalize opposition politicians. In doing so, the regime has not shied away from applying illegal methods as the episode involving Mahmudruzi Iskandarov has shown. In December 2004, the leader of the Democratic Party was arrested in Moscow after Tajik authorities issued a warrant for his extradition on criminal charges. After Russian authorities released him in April 2005, Iskandarov was apparently abducted and forcibly repatriated to Tajikistan, where he was put on trial. In October 2005, he was convicted of terrorism and sentenced to 25 years in prison. Civic organizations can act only if they do not openly criticize the president or his policies. A new law on public

Association /
assembly rights

organization, based on the Russian model, is currently being prepared. If adopted, it will grant excessive rights to government entities to monitor the activities of public organizations and restrict the right of association for foreign nationals. The first step would require the re-registration of all public organizations. Representatives of the Open Society Institute have already announced that it will cease its activities if this happens.

Tajikistan still lacks the technical infrastructure to foster a vibrant public discourse. State intervention in media coverage has also increased. Newspapers rarely circulate beyond the capital and the few larger cities; a lack of electricity means that TV and radio do not reach the rural regions. Tajik state television programming is generally limited to a mixture of singers, dancers and news about the president. During the review period, independent journalists have been subject to various forms of harassment, particularly during the run-up to the elections: two private printing houses were closed down, two independent TV stations were temporarily taken off the air and two independent journalists were sentenced to long prison terms after being charged with theft and disorderly conduct. A new media law introduced in January 2005 requires international FM radio broadcasters to register with the Ministry of Justice and obtain a media license. The government suspended the BBC's FM frequency services after it had failed to meet the 20-day registration deadline, a process that normally takes about six months. The media practices self-censorship as a consequence of these heavy-handed measures. One of the few remaining truly independent and more reliable news sources is published in print and online by the externally sponsored media group Asia Plus. It is published in Russian only and can be obtained only in major cities or by those with access to the Internet. Russian TV also has a sizeable outreach, and Russian newspapers have launched Tajik outlets that occasionally print articles critical of the Tajik government.

Freedom of
expression

3 | Rule of Law

Powers are institutionally differentiated, but serious deficiencies exist in the checks and balances between the executive, legislative and judiciary branches. There are strong indications that the executive branch regularly influences the prosecutor's office and decisions made by the judiciary. The president's office clearly dominates the legislature. This domination has been fortified by the results of recent elections and by the resignation of the remaining members of the opposition in the executive branch.

Separation of
powers

Nominally, the judiciary is functionally differentiated. However, the prosecutor remains in a superior situation relative to defense lawyers and judges. Judges often find themselves in a position in which they cannot independently issue judgments for fear of possible repercussions. Officials at all levels of the court

Independent
judiciary

system are strongly influenced by the executive branch. Under the constitution, the president has the right to both appoint and dismiss the judges, the prosecutor general and his deputies, subject to confirmation by the parliament. For the most part, judges at the local, regional and republic level are poorly trained, badly paid and lack an understanding of the concept of an independent judiciary. This renders them vulnerable to corruption and other sorts of influence. In general, the court system is not trusted by the population, which tends to employ other, informal authorities to settle disputes.

Political and bureaucratic corruption is perceived as being pervasive throughout Tajik society and encompasses all levels of the state bureaucracy. A study published by the Center for Strategic Research identified tax and customs services, courts and the prosecutor's office as the most corrupt government offices. Corrupt officeholders elude prosecution in most cases. However, the president does pay special attention to the fight against corruption and has issued several key legislative statements since 1999. He created the Office for Fighting Corruption in 2004, which was reorganized to become the Agency for State Financial Control and Corruption Fight in January 2007. In April 2006, Rakhmon accused government ministries of becoming mafia clans and sacked the minister of energy for corruption. Repeated calls for public officers and their deputies to disclose their finances as well as the arrests of some corrupt judges and prosecutors suggest a tendency toward concerted anti-corruption efforts. According to the prosecutor general's office, over 80 criminal cases involving bribe taking, abuse of office and other corruption crimes were opened in the republic during the first nine months of 2006.

Prosecution of
office abuse

There are no large scale, organized or habitual violations of civil rights by the state. However, the regime does not enforce such rights and serious limitations exist in practice. Police often conduct arbitrary arrests and reportedly beat detainees to extract confessions. Detainees are often refused access to legal counsel and frequently face lengthy pre-trial detentions. Conditions in prisons are life-threatening. In 2005, 80 prisoners died of tuberculosis while in custody. The government officially respects religious freedom but does impose certain restrictions, including requiring registration. Tajik authorities have carried out an increasingly repressive campaign against the banned Hizb-ut Tahrir movement, which advocates the establishment of an Islamic state in Central Asia. According to Human Rights Watch, the authorities have also targeted the members of other more moderate religious groups, a practice that may in turn generate religious radicalization.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions exist, but they are part of an authoritarian regime. The executive has built up a system of patronage, which works effectively within formally democratic structures, but not necessarily according to democratic rules. The structural weaknesses of the bureaucratic institutions make implementation of legislation difficult. Although the institutional framework for democratization might exist, it is unlikely that true democratic reform will occur in the near future. Potential new leaders will probably also make use of the patronage system. Many citizens, though they grumble about the economic and social situation, are tired of conflict and are uninterested in politics.

Performance of democratic institutions

Large parts of the population consider the president the main guarantor of political stability. In general, the existing political institutions had preserved postwar stability as long as the Islamic Revival Party of Tajikistan (IRPT) began to take part in government. Politically and - with the death of their charismatic leader, Said Abdullo Nuri – spiritually weakened, the party is currently redefining its political strategy. For the time being, both the patrimonial system and the president are not seriously contested by any potential veto power.

Commitment to democratic institutions

5 | Political and Social Integration

Political parties are not rooted in society. They do not play an important role in forming political will. The presidential People's Democratic Party of Tajikistan (PDPT) has basically two functions: to organize campaigns for the president and to promote the careers of its members. Two other parties are represented in the parliament's lower house, which is dominated by the PDPT (47 out of 63 seats): the Communist Party holds four seats and the Islamic Revival of Tajikistan (IRPT) two, while the 10 independent deputies tend to support the PDPT. Two other parties, previously represented in parliament, did not clear the electoral threshold in the February 2005 elections. Whereas the Hizbi Demokrati (Democratic Party), a formerly essential part of the opposition, is about to split up into factions in the wake of the conviction of their former leader Mahmadrusi Iskandarov for alleged treason, the Socialist Party might dissolve entirely. To date, it is also unclear if the new moderate party leader of the IRPT, Makhiddin Kabiri, can hold the factions together. After the parliamentary elections of February 2005, the four opposition parties claimed that there had been widespread irregularities, but without success or much public support. In the run-up to the presidential elections of 2006, only the Communist Party nominated a candidate. All other parties declined to do so, claiming that their candidates would not have a fair chance. However, new political parties emerged and named candidates, all of whom then declared their support for the president's policies.

Party system

A system of cooperative associations and interest groups that could link society and the political system is still absent. Organized interests, other than among business groups, is rare. Citizens are able to organize trade unions. However, there are very few initiatives to organize outside of existing trade unions, many of which have been functioning since the Soviet era. These trade unions cooperate more with governmental structures than with members of civil society. Nevertheless, there is a colorful landscape of national and international NGOs, which have a tremendous impact on social life and development in many regions. This holds true especially for the Aga Khan Foundation (AKF) in GBAO. NGOs are numerous and there is a tendency toward duplication of efforts especially in community development programs. This duplication is largely the result of a lack in coordination among the NGOs. In view of the recent political upheavals in neighboring Kyrgyzstan and Uzbekistan, the Tajik regime has increased its monitoring of the activities of NGOs, in particular of those receiving funding from abroad.

Interest groups

This matter is not applicable as there is no reliable survey data on the consent to democracy, which is also difficult to estimate. A few surveys have revealed a rather blurred notion of democracy among citizens. Furthermore, Tajikistan's population loathes political upheavals. Large-scale demonstrations like those in neighboring Kyrgyzstan remind the Tajik population of their own recent history. It was demonstrations of that type that marked the beginning of civil war.

Consent to
democratic
norms

Self-organization of the population is highly developed within villages and the extended family, but very rarely reaches beyond village borders. There are mutual bonds of solidarity within the village communities and traditional, close-knit informal institutions help individuals cope with everyday problems. Many international NGOs support such village-based mobilization and promote it as a means for development. However, these programs are poorly coordinated, organizational capacities are confined to the village, and creativity in problem-solving is often constrained by patrimonialism and a lack of individual activity. There are almost no institutional links across villages or across regions. Today's Tajikistan is a fragmented and village- or family-based society.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Tajikistan was the poorest part of the Soviet Union and suffered the most from the collapse of the Soviet empire. In its first few years of independence, Tajikistan teetered on the brink of becoming a failed state. Macroeconomic data show a solid improvement since then (see 11.1, Economic performance). But this recovery has not improved the population's freedom of choice. The HDI has slightly dropped from 0.671 (2002) to 0.652 (2004), which ranks the country at 122nd. The Soviet legacy of a sound educational and health care system puts the country in a better position than other developing countries. Only the remnants of this legacy are left as public spending on health care and education is dramatically less than that of the Soviet era. Access to these formerly public goods is now determined by money: exams at school and university can be bought just as easily as quick and sound medical treatment. With an enrollment rate of 70.8% in primary, secondary and tertiary schools, it will be hard to maintain the adult literacy rate of 99.5% as it is shown in HDR 2006. In rural areas, many girls do not attend school.

Socioeconomic
barriers

Although the estimated poverty rate has declined, Tajikistan remains the poorest country in the CIS region. According to ADB data, 64% of the population lived on less than \$2.15 per day in 2003 compared with 83% in 1999. Yet regional differences are very high with a poverty rate of 83% in GBAO. On the macro level, income per capita has risen and the GINI Index suggests growing inequality. Incomes hardly cover expenses for even the minimum monthly consumer basket. According to Tajikistan's State Statistics Committee, the lowest public sector wages are those in agriculture, health and education, ranging between five and 20 dollars monthly. Average earnings nationwide, including the private as well as public sector, are slightly higher at about 25 dollars a month, but that figure still compares badly with the cost of a minimum monthly consumer basket, which the Ministry of Labor puts at 64 dollars. Large parts of the population depend on the remittances from labor migrants in Kazakhstan and Russia. There are an estimated one million Tajik labor migrants in these countries; their remittances constitute an important part of GDP. As a result of the labor migration, whole regions are depopulated of men and dominated by female-led households. Women are the main working force in the cotton fields. The GDI rate to HDI of 99.4% suggests a rather high level of equality that is not mirrored

in the difficult societal situation of women. Many private cotton farmers are trapped under an ever-growing debt burden as they fell prey to the inequitable borrow-and-sell schemes of the so-called “futurist companies,” or well-connected oligarchs. These companies lend equipment and fertilizer to farmers with the condition that the companies can buy the harvest at a pre-fixed price well below market level. This exploitative system has yet to be seriously addressed by the government. Despite a steady and strong improvement of the macroeconomic situation, social exclusion is still quantitatively and qualitatively extensive, and socially ingrained.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	1,239	1,554	2,076	2,312
Growth of GDP	%	9.1	10.2	10.6	7.5
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.9	2.0	13.1	2.4
Export growth	%	12	6.8	30.7	11.6
Import growth	%	6	2.9	-	-
Current account balance	\$ mn.	-15.1	-4.8	-57.0	-18.9
Public debt	\$ mn.	901.1	911.8	758.3	785.3
External debt	\$ mn.	1,141.6	1,151.7	909.6	1,022.1
External debt service	% of GNI	8.1	5.6	4.9	3.5
Cash surplus or deficit	% of GDP	-	-4.6	-6.6	-
Tax Revenue	% of GDP	-	9.7	9.8	-
Government consumption	% of GDP	8.6	8.3	8.7	9.2
Public expnd. on edu.	% of GDP	2.8	2.4	2.8	3.5
Public expnd. on health	% of GDP	0.9	0.9	1.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.1	2.2	2.2	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Prices are liberalized in principle. However, the government influences prices through large state-owned businesses in industry, utilities and farming, particularly in the production of cotton, the country's main crop. The level of quasi-fiscal spending not captured by the official budget remains high and is primarily accounted for by subsidies to state-owned enterprises, particularly in the energy sector. The procedures for establishing businesses are both tedious and time-consuming. Bureaucratic corruption, tax policies and over-regulation are the major deterrents to investment and have frustrated the development of a significant private sector beyond retail trade and simple services. Employment in the informal sector accounts for approximately 40% of the labor force. Since 2000, the national currency, the somoni, is fully convertible, but there are restrictions on cash exports. Most capital transactions, including all direct investment transactions, require central bank approval.

Market-based competition

An anti-monopoly agency has been established to monitor the formation of monopolies. Yet the state itself is still the main monopolist and effectively controls key sectors of the economy. Broad sectors of the economy defined as significant to national stability are shielded from competitive pressure. The essential cotton industry suffers from cartelized credit provision for the yearly investment cycle and non-competitive markets for fertilizers and seeds.

Anti-monopoly policy

Despite its difficult trade environment as a landlocked country surrounded by instability, Tajikistan has the highest degree of trade openness among the low-income CIS countries. Exports plus imports amount to 120% of real GDP. The state controlled commodities of aluminum and cotton contribute the largest share in exports. Imports consist mainly of aluminum and energy (electricity, natural gas, petroleum and petroleum products), accounting for about 50% of total imports. Tajikistan's official trade regime is relatively liberal with low tariffs and few quantitative restrictions. Since 2003, the average tariff burden has been around 7%. Fifty-four least developed countries are exempt from these import tariffs altogether. As a member of the Commonwealth of Independent States (CIS) and the Eurasian Economic Community (EURASEC), Tajikistan has signed free trade agreements with seven CIS countries. The very comprehensive system of mandatory standards has been largely retained but the country lacks the capacity to control them. Documentary requirements are extensive and impose a noticeable burden on trade. Above all, customs corruption constitutes the most significant informal barrier.

Liberalization of foreign trade

The banking sector has made progress in consolidations and banking supervision has improved slightly. The increase of the minimal cash stock from \$2 million to \$5 million is meant to further strengthen the system. However, numerous

Banking system

restrictions, poor supervision and a substantial government presence in the financial sector remain. Private banks increasingly comprise a majority of the banking sector. In 2005, the banking sector was opened to foreign investors. But according to the Economist Intelligence Unit, Tajikistan still has barriers to foreign participation in the financial sector, including a ceiling on foreign capital in banks. Commercial banks concentrate their business on money transfers and currency exchange rather than on providing credit, which is based on small loans. All in all, the financial sector is still mistrusted and is not able to function as a financial intermediary, attract private savings or meet the financial needs of private domestic enterprises.

8 | Currency and Price Stability

Average annual inflation was brought down from 38.6% in 2001 to 7.1% in 2004, even as the economy expanded rapidly. In 2005, the rate of inflation was 7.1% and thus within the central bank's 7.5% target limit. This rate reflected unusually high food prices in the summer, increases in electricity and petroleum fuel prices, temporary disruptions in border trade with Uzbekistan and exchange rate depreciation. Monetary policy, directed at fighting inflation, remained cautious in 2005. The previous relative stability of the national currency, the somoni, against the dollar was lessened as the authorities focused on stabilizing reserve money growth. The somoni depreciated modestly in nominal and real terms in 2005, reflecting worsening terms of trade and a weakening against the currencies of Tajikistan's main trading partners in the second half of that year.

Anti-inflation /
forex policy

The government has continued its cautious fiscal policy, which aims to balance the budget over the medium-term. Ongoing reforms in tax administration, including a new tax code that came into effect in January 2005, helped boost revenues. The government exercised restraint in spending and the outcome was as budgeted. The government held direct negotiations with bilateral creditors for debt rescheduling, write-offs and asset swaps (most of the creditors were outside the Paris Club). The main breakthrough was the restructuring of the large debt owed to the Russian Federation through a debt asset swap in October 2004. This involved exchanging \$242.4 million in debt against Russian state ownership of the Nurek space tracking station, which in turn lowered Tajikistan's external debt by more than 20%. Additionally, the IMF wrote off \$100 million in debts, providing another major boost to the debt consolidation effort. To finance essential infrastructure projects, the country's foreign debt pressure will rise again. Even more alarming is the indebtedness of cotton farmers, which reached \$300 million in mid 2006, a figure that is double the total income of cotton exports. The majority of these loans stem from foreign resources arranged by the intermediating futurist companies.

Macrostability

9 | Private Property

Property rights and the regulation of the acquisition of property are defined formally in law. However, these rights are not consistently enforced and not adequately safeguarded by law. Protection of private property is weak in Tajikistan. Private land ownership is restricted. The Economist Intelligence Unit reports that corruption and cronyism are “particularly widespread within the judiciary, whose independence is further undermined by political pressure.”

Property rights

In January 2006, the government announced that it had achieved its goal of privatizing small enterprises. Government involvement in larger businesses is a different story, where strategic enterprises are still largely state owned or operate under tight state control. In May 2006, the government rejected the sale of Tadaz, the aluminum plant that produces half of the country’s industrial output, to Russian investors. Corruption, random inspections, lengthy admission processes and bureaucracy characterize the difficult business environment for private entrepreneurs. As a result, private business is developing only very slowly. The Law on Inspections of Business Entities’ Activities of July 2006 is aimed at significantly decreasing the frequent and unnecessary inspections of SMEs conducted by state authorities. The government’s farm debt reduction strategy advocates land reforms and liberalization of cotton production, which together hold the key to agricultural growth. However, little headway was made in 2005. To date, land reform has benefited only a few actors that were already in key positions, such as kolkhoz managers.

Private enterprise

10 | Welfare Regime

There have not been any significant changes in the country’s social welfare system since independence. Furthermore, a clear reform strategy with the specific aim of improving the social welfare of individuals and society as a whole has not yet been developed. The current level of social welfare is well below that of the Soviet era. Social welfare policies do not correspond to the changed social context and to the development perspectives for this sector. The government has identified social welfare as a key element in the fight against poverty and has accordingly increased its allocations to support this sector. In 2002, the government adopted the PRSP, which, in its initial phase of implementation, specifically focused on providing assistance to homeless children. However, these steps have not yielded results. Ministries involved did not manage to cooperate adequately in order to address this issue. Critical requirements for social welfare are not adequately reflected in the PRSP, which in turn has negatively affected policy formation and the mechanisms the government has put in place. Overall, government institutions responsible for social welfare issues are not fully

Social safety nets

coordinating their actions and there is an unclear division of tasks and responsibilities. Every year the government increases the budget to support the social welfare system. State expenditure for social welfare amounts to around 2% of GDP per annum (2005). Health care expenditure as a proportion of GDP in Tajikistan dropped from 6.4% in 1994 to 1.3% in 2005. These means are insufficient to support the existing system and to solve emerging problems. The existing pension fund system for the disabled, given the present situation on the labor market with low salaries and high unemployment rates, does not generate sufficient resources for the Social Protection Fund. Sound health care is a question of money. Social security depends mainly on ties within the community and on the support of the family.

Even at the highest echelons, public offices are up for sale. Consequently, corruption is fed further as investments must yield results once an individual has made it into office. Access to education is equal in principle, but exams can also be bought. Corruption thereby excludes talented individuals who lack money and leads to a deterioration of skills, knowledge and labor quality. This distorts motivation over the long term. Assistance mechanisms exist but suffer from a severe shortage of financing. Participation opportunities differ according to the region. When staffing the executive office, the president still prefers hiring people from his hometown in southeast Khatlon (Kulyob and Dangara). In general, rural areas are much worse off. In GBAO and in other parts of the country beyond this mountainous region, conditions are improved by the support of the AKF. Women have been adversely affected by the lack of personal security following the war. Economic impoverishment and declining political participation have also followed in the war's wake. For the past decade, the number of girls attending school in Tajikistan has been steadily decreasing, with civil war, poverty and a return to traditional Islamic values exacerbating the gender divide in education. According to figures from the Tajik Ministry of Education, in the school year 2004/2005, there were 4%, 8% and 20% more boys than girls at primary, middle and senior schools, respectively. At the university level, young women make up just under a quarter of the undergraduate population. This is a far cry from the Soviet era, in which the education of women was seen as a priority.

Equal opportunity

11 | Economic Performance

While Tajikistan is still the poorest country in the CIS region, its macroeconomic outcome looks solid. Growth of gross domestic product (GDP) is remarkable and averaged nearly 10% from 2001 to 2004 – admittedly from a very low starting point – before losing pace to about 6.9% in 2005. GDP per capita is roughly at the level of Burkina Faso or Mozambique. The recent slowdown in growth reflects weak performance in agriculture, slower growth in industrial output and less

Output strength

favorable terms of trade caused both by higher import prices for oil products and natural gas and by a softening of cotton export prices. Cotton and aluminum are the traditional pillars of the economy and, even with some diversification, continue to account for more than three-quarters of exports. Cotton production appears to have declined by about 20% from its 2004 level. The cotton sector suffers from a slew of structural problems, including heavy debt (\$280 million) resulting from unfavorable credit terms and slow implementation of land and market reforms. The weaker growth in industry stemmed from a slowdown in aluminum production. The reduction in cotton and aluminum production explains the decrease in exports. The value of imports increased in accordance with prices for gas and petroleum products.

It is unlikely that past financial sources such as postwar recovery, workers' remittances and commodity exports will be sufficient to ensure future growth. Diversification of the economy continued (though slowly), bringing the share of the services sector to nearly 50%, with trade, construction, communications and financial activities the fastest growing sectors. The share of agriculture in the economy has declined steadily from 36% in 1991 to 22% in 2005. Cautious fiscal policy is reflected in small budget surpluses over three consecutive years followed by a tiny deficit in 2005. Tax revenue exceeded budget expectations and rose sharply, chiefly because of larger collection of income taxes and value added tax. The substantial reduction in external debt, which as a share of GDP fell by more than half between 1999 and 2005, delivers one of the success stories for the review period. Foreign direct investment (FDI) in Tajikistan is among the lowest in the CIS. The rise in 2004 is a statistical anomaly introduced by the massive debt for asset swap with Russia. The low levels of FDI are largely the result of Tajikistan's unfavorable location, the poor business climate and the inability of local counterparts to put up adequate local co-financing. The level of unemployment in the country is difficult to determine because of the large informal sector, a high number of labor migrants and the comprehensive subsistence economy. However, it can be assumed that it is much higher than the official rate of below 3%. Unofficial estimates oscillate between 40% and 12% for recent years. These estimates do not include underemployment.

Tajikistan has some natural resources that provide growth potential, in particular: water, hydropower and some minerals, including gold, silver, precious stones and uranium. However, growth can only be sustained if the economy diversifies, the business environment improves, structural reforms are evenly implemented, and infrastructure as well as the skills and education of the workforce are enhanced. All this requires massive donor assistance. According to the ADB, medium-term economic prospects are promising in view of major foreign investments in infrastructural projects (Russia, China, Iran, Japan, United States, EU and ADB), in the energy and aluminum sectors (mainly Russia and IFIs), and as a result of

intensified efforts to advance structural reforms. However, Tajikistan will remain dependent on a few key sectors – aluminum, cotton and power – which are susceptible to large price and demand fluctuations as well as political manipulation. Tajikistan also remains vulnerable to fluctuations in prices for food and oil products.

12 | Sustainability

Tajikistan's economic policy is focused on medium-term economic growth. Environmental concerns are subordinate to growth efforts. Accordingly, environmental aspects are only rarely on the political agenda. Environmental protection is part of the Ministry of Agriculture and Environmental Protection, which focuses primarily on agricultural issues. Pollution caused by the aluminum plant at Tursonzade near the border to Uzbekistan is a constant bone of contention between the two countries. Of additional concern is the uncontrolled use of wood as heating material in the mountainous regions (GBAO and especially Murghab). This threatens to lead to erosion, with dire long-term consequences for farming and for the mountainous environment in general. Water supply in cities is provided directly from rivers through old and rusty pipes and without filter systems. Bad water quality has led to incidents of cholera in recent years. The government's "water for life" program within the MDGs aims to render the water in Dushanbe drinkable by 2012.

Environmental
policy

Tajikistan has inherited from the Soviet Union an educational system with comparatively high standards, which even brought access to education to the most remote areas of the country. As an example, Khorog, capital of GBAO, on the border to Afghanistan, was famous for having the highest per capita quota of people with university degrees in the entire Soviet Union. Much of the human capital and most of the infrastructure were lost during the dire years of transition and civil wars. The international community has identified education as a priority sector and international donors are supporting the education system. Public expenditure on education has risen from 2.4% (for the period from 1999 to 2003) to 3.5% of GDP. Despite efforts by international donors and by the Tajik state, it is to be expected that the educational system, especially in the countryside, will further erode. Corruption will likely continue to undermine the system and gender inequality will grow further. The cotton industry also encroaches upon the educational system: in recent years, students in cotton-growing areas (Khatlon and Sugd provinces) were sent to harvest in the fields. In 2006, an urgent call by the president to the heads of the regional administrations (hokims) and to directors of universities to stop this procedure failed to keep students at their desks. Hokims and directors claimed that students voluntarily helped with the harvest. Because of a lack of funds and perspectives in research and development, many scholars leave the country to work elsewhere.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

Tajikistan faces a very high level of difficulty in its transformation tasks. Immediately after independence, the country was cut off from essential subsidies from Moscow and experienced rapid economic decline. A civil war that lasted for five years marked the beginning of independence. The level of socioeconomic development is low. Two-thirds of the population lives on less than \$2.15 per day. The education system survives structurally on its Soviet legacy, but suffers greatly from insufficient funding. This has already had an impact on labor force skills. Since first registering growth in 2000, the economy has developed impressively. International assistance, structural reforms, remittances from migrant workers and favorable world market prices for major export goods (aluminum and cotton) have ignited double-digit GDP growth rates. Geographic characteristics structurally hamper development. Tajikistan is a landlocked country, located in a difficult region and far from major markets. Over 50% of its territory lies above 3000 meters. Only 7% of the country's territory is arable, yet about 60% of the fast-growing population depends on farming. The northern region of Soghd is cut off from the central and southern part of the country by two mountain ranges and is not accessible by road for at least six to seven months of the year. This creates significant obstacles in communication, transport, domestic trade, and social as well as economic integration. Tajikistan is prone to various natural disasters, including landslides, avalanches, floods and earthquakes. According to the World Bank, each year Tajikistan experiences about 50,000 landslides, 5,000 tremors and earthquakes, and hundreds of avalanches and debris flows. HIV/AIDS infection has increased due to low awareness, not least among migrant workers. An increase in drug addiction has also contributed to the number of HIV/AIDS infections. This is related to the fact that the country is one of the main drug transit routes from Afghanistan.

Structural
constraints

Weak civil society traditions and deficits in the rule of law and in governmental administration have an adverse impact on transformation toward a market-based democracy. Despite this, a remarkable landscape of NGOs has emerged. Mutual solidarity ties as a base for collective action exist only within the village

Civil society
traditions

community and within the extended family. Beyond this, Tajikistan is a highly fragmented society.

There is a wide consensus among the political elite and all segments of society that the civil war was a national tragedy that must never happen again. For this reason, there is an ingrained tendency in political culture to shy away from open confrontation, polarization and mass demonstrations. Despite this consensus and some consolidation in the nation-building process, Tajikistan remains a regionally divided society that has not yet developed institutions that would allow non-violent conflict management between the regions, between religious groups (although predominately Sunni, Tajikistan has a substantial Shia-Ismaili minority) or between religious and secular groups.

Conflict intensity

II. Management Performance

14 | Steering Capability

The number one long-term strategic priority of President Rakhmon is to build up the country's domestic infrastructure, to make the country less dependent on neighboring countries and less vulnerable to externalities. Ambitious infrastructure projects are meant to boost domestic trade, link the country to international markets and exploit the country's potential as a hydropower producer. Many of these projects have already attracted international funding and bilateral investment (mainly from Russia, China and Iran). But protracted problems with the Rogun hydropower dam and the Aini tunnel, which is to replace one of the rocky and frequently impassable routes between the country's center and north, hint at an implementation gap. While in the case of the Rogun dam different interests with the Russian investors collide, the tunnel project became mired in bad and corrupt management. Despite its official opening before the presidential elections, the tunnel is still not yet open to public traffic. Other long-term goals are aimed at improving the business climate and economic structures. To do so, Tajikistan depends heavily on foreign aid. On the political agenda, the goal of democratization is pursued in words but not in deeds.

Prioritization

In economic issues, the government has achieved some reforms in fiscal policy, liberalization and diversification. The government is willing to undertake further steps toward establishing a market economy. Given President Rakhmon's grip on power, democracy is not a priority of the reform agenda. The political leadership responds to international calls for democratic reforms, but initiatives

Implementation

are either watered down to respect “cultural differences” or founder due to administrative interests. As a consequence, a planned local governance reform, which foresees the direct election of heads of district and regional administration, has been stalled for years.

To date, President Rakhmon and the former opposition have succeeded in stabilizing the country after its civil war. The political elites of both sides have proved to be flexible. Rakhmon has grown from the leader of one faction to the leader of the nation. However, he shows little flexibility or willingness to change his habit of employing a regionalist approach in forming his government. In trying to surround himself with loyalists, he might miss an opportunity to foster the young generation of skilled politicians to come. Flexibility and learning capacities are neither characteristics of the governing cabinet, nor are they typical features of authorities at the local level, many of whom did not earn their posts because of specific skills. Crisis situations reveal a lack of adaptability and capacity to learn. In the past two years, in contradiction to early assurances by the Ministry of Energy, Tajikistan suffered cuts in energy supplies. The most recent power shortages were primarily the result of a shut-down of the Sangtuda I hydropower station due to construction work – work the ministry should have known about long before. It turned out that the ministry had not taken precautions for this situation. Energy ordered from Uzbekistan and Kyrgyzstan has been insufficient and supplies have arrived too late to bridge gaps. Long-lasting power cuts occurred during a harsh winter, leaving many people to freeze, burn wood or in some cases fall victim to accidents involving gas heaters. As is often the case, scapegoats were found in the lower echelons of power, this time in the city administration of Dushanbe.

Policy learning

15 | Resource Efficiency

After the presidential elections, President Rakhmon restructured the government and trimmed the number of ministries with the goal of reducing redundancies and saving money. As in recent years, the government reshuffle was moderate. Instead of calling in younger and more skilled staff, Rakhmon relied on his old loyal team, many of whom come from his home region. The presidential administration is still oversized and constitutes a parallel structure to the ministerial administration. Personal resource management is inconsistent as is evidence by the restructuring of the military branch. The integer head of the border control committee, General Zuhurov, was removed, followed by another 300 officers from the border troops, thus burdening the reorganization of the military. General Zuhurov will now supervise the Agency for the Protection of State Secrets. An austerity policy has been continued in cooperation with the IFIs. With its commitment to a balanced budget, the government sustained its

Efficient use of assets

prudent fiscal policy in accordance with the macroeconomic framework supported by the IMF. Following the surpluses of 2003 and 2004, the budget for 2005 showed a small deficit, which will likely be the case for 2006 as well. The overall budget balance reflects higher tax revenues, stronger than anticipated growth and fiscal discipline on expenditures. Tajikistan has substantially reduced its still large external debt burden through restructuring and write-off agreements. However, further debt reduction and prudent debt management is needed. Under the technical assistance and guidance of the World Bank, the country is working on the facilitation of its medium-term budget planning, to shift the budgeting system from the old Soviet model. Decisions regarding the budget are centralized and involve few individuals. The legislative branch is rarely involved in budgetary decisions and allocations and it rarely creates mechanisms for implementation. Local governments are able to propose initiatives, make decisions and implement activities with relative autonomy. However, local government bodies, as the legal representative of the national government, remain beholden to the central public administration body. Civil servants are not protected from political interference. Appointment and evaluation according to specific professional criteria is a regulation but not a rule. Many civil servants are members of the ruling party. In many cases, nepotism or job selling plays a key role in staffing decisions. Public sector workers enjoyed several pay increases during the period under review. These increases have been unevenly distributed to the benefit of security agencies, the military, court and prosecution staff as well as staff of the Ministry of Internal Affairs. Education, research and health workers received less, thus accentuating already existing income divisions. Reforms in the civil service have begun to streamline the bureaucracy.

President Rakhmon has more or less abandoned his policy of appeasing opposition groups, which have in any case been marginalized in Tajikistani political circles. While these groups might have hampered policy coordination in the past, it is unclear whether a nominally loyal government will perform any better. The administrative coordination style is highly centralized and its hierarchical and bureaucratic manner competes with informal network structures that otherwise tend to undermine the administration.

Policy coordination

Corruption is omnipresent throughout the country's political administration, state organs, economy and society. The country scores 2.2 and ranks 142nd in Transparency International's Corruption Perception Index for 2006 (Tajikistan ranked 144th with a score of 2.1 in 2005). A national corruption perception study by the Center for Strategic Research under the president (in cooperation with UNDP and the Swiss Agency for Development and Cooperation) concludes that "the trend is for corruption in state institutions not just to grow, but to become institutionalized and legalized. State agencies organize their internal procedures

Anti-corruption
policy

in such a way that they're able to collect various additional incomes, so that this becomes a secondary form of taxation." The Global Integrity Index 2006 shows Tajikistan at a very weak level, with very low ratings for access to information, government accountability and oversight regulations, and medium ratings for public procurement systems and the legal basis for anti-corruption measures. Political parties regularly publish reports on their financial activities, which are then checked by the tax service. In practice, the leading PDPT party enjoys unequal financial opportunities. The agency monitoring political financing only infrequently imposes penalties on offenders. Yet the political leadership reacts to pressure from the international community and has begun to adopt some anti-corruption measures. The above-mentioned study is meant to act as an impetus for the introduction of new measures. In the past, anti-corruption campaigns have been inefficient due to competency overlap with infrastructures to fight corruption present in several ministerial departments and a special agency devoted to the cause under the general prosecutor. However, in January 2007, the president merged these various competencies to create a central agency for financial control and the battle against corruption. The new body is also to ensure the transparency of auditing activities. Prosecutors have brought a growing number of corruption cases to court. Civil servants convicted of corruption are banned from future government employment. There is currently no integrity mechanism concerning the access to information, the accountability of officeholders and transparent public procurement. There are significant doubts about the willingness to fight corruption given that the new head of the presidential administration was said to be very active in the job-selling business during his time as provincial head of administration of Khatlon region.

16 | Consensus-Building

While there is a shared consensus among political elites and society that there market reforms are essential to attracting investors, faith in democracy is less clear, despite political rhetoric to the contrary. When reproached by international observers for the less-than-democratic nature of recent elections, President Rakhmon referred to cultural differences and asked for patience.

Consensus on goals

Political actors who might advance democratic reforms do not play a significant role in Tajik politics.

Anti-democratic veto actors

Key leaders of the former United Tajik Opposition (UTO) and potential opponents of the Popular Front are marginalized, imprisoned or dead. The persecution of IRPT activists by state authorities has strengthened support for a more radical strand of Islam, represented in Tajikistan by the Islamic Movement of Tajikistan (IMT) and the local wing of Hizb ut-Tahrir (HT), both of which are fighting for an Islamic state.

Cleavage / conflict management

Participation by civil society in the political process is sought by the state on few occasions. Women's groups have contributed to legislation for gender equality. The PRSP was written with some civil society participation. The Law on the Fight Against Corruption mentions civil society organizations as one of the institutions able to combat corruption and promote good governance. However, the government does not involve civil society groups in its work on corruption issues, nor do these groups have an interest in active involvement for fear of reprisals. In the capital, members of the presidential think tank take part in academic discussions and consultations. International NGOs play a prominent role in Tajikistan and the country's leadership recognizes their substantial contribution to development. This holds especially true for the rural areas, where international developmental organizations use community mobilization programs as a means of promoting development. These community mobilizations do not transcend the boundaries of their respective villages, however.

Civil society participation

During Tajikistan's civil war from 1992 to 1997, 50,000 people lost their lives. The whole of Tajik society considers the civil war, its atrocities and injustices to be a dark period in the country's history. So far, the issues of past injustices, war crimes and reconciliation have not been addressed except in court cases against warlords from both warring parties. It is the policy of the current regime to block all debate and discussion about this period in order to avoid opening up old wounds. Instead, the regime's approach to overcoming the national trauma is to foster a common national identity based on the heritage of ancient kingdoms and culture as well as on religious beliefs. The restrictions on discussing the civil war have so far been accepted by society. In fact, the "losers" of the war often indicate that they would prefer not to talk about the war for fear that this may provoke a new round of violence. However, avoiding or even prohibiting discussion about the war is a short-term strategy that can hinder true reconciliation.

Reconciliation

17 | International Cooperation

Tajikistan's political leadership actively works together with both bilateral and multilateral international donors. The country is highly dependent on international cooperation. Official development assistance makes up 11.6% of GDP. International organizations are omnipresent in Tajikistan and the government is trying to make the most of international assistance. The main fields of activity are social relief, investments in infrastructure projects and, more recently, structural reforms in the economy and administration. On occasion, the World Bank and the ADB have praised the political leadership for its efforts and responsiveness, which has recently sounded less obstinate when it comes to administrative and political reforms.

Effective use of support

Tajikistan is mainly seen as a consistent partner for joint development policies; it is also seen as a responsive partner with regard to market reform recommendations from the international community. Cooperation in the field of combating drug trafficking – a key concern for the international community – is equally good. In the wake of developments in neighboring countries, international NGOs are more closely watched, but the leadership still follows a policy of pragmatic cooperation. Although foreign direct investments have risen markedly, especially in the construction and telecommunications sectors, the business environment continues to be marred by corruption.

Credibility

As a landlocked country, remote from major markets, poor and militarily weak, Tajikistan depends on cooperation with neighboring states. In its efforts for an independent position and foreign investments, the political leadership has adopted a multilateral attitude. While there was a tendency to lean on Russia in the past, Tajikistan is cultivating closer relations with China, the United States and other major countries in the region like Iran, India and Turkey. President Rakhmon dedicated his first visit after re-election to China, signing six contracts on partnership, cooperation and investments, among them the construction of a hydropower station. Tajikistan has expanded its cooperation with Iran and Afghanistan, building on their common cultural heritage. Energy supply agreements with Afghanistan and Pakistan have already been signed. Further exploitation of the hydropower export potential is planned. Tajikistan is an active member in all relevant regional organizations. Regional cooperation is still weak, but is recognized as a necessity as many of the regions problems cannot be solved on a bilateral level. The delicate relationship with neighboring Uzbekistan is one example of difficulties in the region. Large parts of the common border had been mined by Uzbekistan, which claimed that Islamist extremists were pouring into its territory from Tajikistan. There are frequent disputes over gas and energy supplies from Uzbekistan and over dam building projects in Tajikistan. Tensions also exist because both people form substantial minorities in the neighboring countries and the historical centers of Tajikistan, Samarqand and Bukhara, are today in Uzbekistan. In addition, Tajiks are still required to obtain a visa to travel to Uzbekistan, although this is not in line with the membership terms of the Eurasian Economic Cooperation (EURASEC). Relations with Kyrgyzstan were strained over border tensions, which have included two shooting incidents and the seizure of weaponry from alleged Islamist extremists. Tajikistan will continue to rely on good relations with Russia and especially on Russia's readiness to tolerate Tajik migrant workers. New plans by the Russian government to expel migrant workers from Russian markets by April 2007, but to offer six million work permits for non-trade labor, has made clear Tajikistan's vulnerability to Russian migration policies. The Tajik government has already asked the Russian government to issue more work permits.

Regional cooperation

Strategic Outlook

President Rakhmon has managed to consolidate his power and is likely to stay in office for at least the next seven years. With no member of the opposition left in government, the postwar period has come to an end. Professed consideration for the opposition's opinions cannot serve as an excuse for lack of coherence and efficiency anymore. At the height of his power and popularity, Rakhmon could use his uncontested position and his solid reputation abroad to initiate urgent reforms.

In economic and social terms, the priority issues would be: a credible and comprehensive fight against corruption; the dismantling of the cotton credit cartel; the restructuring of the cotton debt burden and property rights; the facilitation of a professional administration and jurisprudence at all levels and in all realms; the improvement of the business climate especially for SMEs; the further diversification of the economy; and greater investment in education.

All these areas need international support and might lead to a reduction in poverty and reliance on remittances from migrant workers. Indeed, many experts believe Tajikistan would come close to economic collapse if it were not for the remittances sent home by hundreds of thousands of migrant laborers. Consistently high birth rates further complicate the fight against poverty and make clear the need to create more job opportunities in the country.

The regime has acknowledged the destabilizing impact corruption has on development and the negative effect it has on its own reputation. If it strays from the chosen path to fight corruption, the regime won't be able to quickly achieve its important strategic objectives: to improve the domestic transportation infrastructure and to make Tajikistan an independent hydropower exporting state.

In political terms, it is unclear whether the regime will maintain its authoritarian course and whether President Rakhmon will continue to rely on a small but loyal circle of advisors from his home region. The risk for renewed violent conflict today appears to be low due to significant external help and progress in state-building. There is a widely shared consensus in society that civil war must not be repeated. Still, as the country is highly vulnerable to negative externalities, it would be a perilous strategy to ignore certain members of Tajik society or completely marginalize the political opposition. Such a strategy could jeopardize the postwar consensus that violent confrontation should be avoided. It may transpire that President Rakhmon will broaden the base of his

government by incorporating young experts who do not have Soviet roots and who are experienced in international cooperation. It is possible that the regime will yield to international pressure and loosen its grip on civil rights. Such reform is unlikely to occur in the short term, however. Instead, to justify its authoritarian tendencies, the regime will cite concerns about the country's stability in a volatile region, with political crises in Kyrgyzstan, a surge in Islamist activities in the Ferghana valley and the deterioration of the situation in Afghanistan. The uncertain political future of Turkmenistan after the death of President Niyazov and the unclear future of Uzbekistan's presidency add to the volatility of the region. If western pressure should become too unpleasant for the Tajik regime, it will turn to other more convenient partners like China, Iran or Russia, which already play key roles in the region.

There are reference points for a strategic partnership between the European Union and Tajikistan. As part of the TEMPUS program and the Border Management in Central Asia (BOMCA) project, the European Union already invests in two of the most relevant aspects for Tajikistan's future: security and education. The EU role in these investments is not commonly known, but these measures must be expanded as well as the overall presence of European investments and business if the European Union wants to be recognized as an active partner. Other areas for a development partnership could be capacity building in business management, reform of the security organs and jurisprudence, investments in infrastructure and the support of a participatory local government. The latter could focus on promoting a civil society spirit that reaches beyond families and villages. Additionally, the European Union has to address Central Asia's regional organizations, most prominently the Shanghai Cooperation Organization (SCO), bearing in mind that the region does not end at the borders with China and Afghanistan.