
Interview: Apas Jumagulov

Kyrgyzstan: Despite difficulties, some old dreams are coming true

Dr. Apas Jumagulov has been the Ambassador of Kyrgyzstan, in Bonn, Germany, since early 1998. Educated in Moscow, Dr. Jumagulov is a geological engineer, with a specialty in petrochemicals and natural gas, who has headed up research work, and has administered oil and gas facilities. Between 1993 and 1998, he was Prime Minister of the Kyrgyz Republic, which gained its independence in 1991.



Dr. Apas Jumagulov

Dr. Jumagulov has published more than 50 scientific works, and has received numerous awards, among them, the State Prize for Science and Technology. In 1994, he was given an honorable title for merit in industry. He is an honorary member of the International Engineering Academy, of the East-West Academy of the City of Bruchsal in the Federal German Republic, and honorary professor of the Kyrgyz State National University and the Kyrgyz State Pedagogical Institute.

In his interview, which he gave to EIR in September, Dr. Jumagulov outlines the difficulties encountered and progress made by the Kyrgyz Republic since independence, following the break-up of the Soviet Union. Dr. Jumagulov identifies some of the problems encountered in the process of transformation to a market economy, which, he emphasizes, must include a "social welfare system for the population." How difficult such a transformation is, under conditions of the current International Monetary Fund system, emerges from his remarks. The impact of the Russian financial crisis and of continuing warfare in Afghanistan, is also explained. Most encouraging is Dr. Jumagulov's assessment of the progress being made in the construction of national transportation networks, which will integrate Kyrgyzstan into the Eurasian continental network of the new Silk Roads.

EIR: Your Excellency, you are celebrating the seventh anniversary of independence and the fifth anniversary of your

national currency. What is your opinion about the financial and economic situation in Kyrgyzstan?

Jumagulov: The financial and economic situation in the Republic has been going through an upsurge. This is the conclusion of many independent experts. The Republic has, during the last three years, made great achievements in macroeconomic stabilization and restructuring the economy according to market-oriented principles, and the economy has been growing. In 1996, the Gross Domestic Product increased by 7.1%, as compared with the previous year, and 1998 has already passed last year's figure by 10.4%. You get the same picture if you look at other important figures of leading industrial branches. For instance, in 1996, the growth of industrial production was 8.8% and, in 1997, 20.4%. The growth of agricultural production was 0.6%, while, in 1997, it grew by 10.7%. Inflation has fallen by 50%, to an annual rate of 14.5%.

This means that, as a result of the economic reforms in the first phase, market mechanisms have begun to operate. Until recently, there was a decline of production (between 1991 and 1995 by more than 50%), and our main task was to get out of the abyss we were falling into. In fact, it was a question of survival, and we stood the test. But now, we have another task before us: We have to consolidate the achievements and to proceed faster along this path. Our new, young government has every chance of succeeding. In 1997, bank reserves increased, the nominal exchange rate remained stable, and interest rates fell considerably. Following the reforms in the real economy, progress has also been made in the financial and monetary sector, which has been subject to structural transformation; a budget reform has taken place.

In collaboration with specialists from the International Monetary Fund and the World Bank, a program has been drawn up on economic policy for the period 1998-2000. Rigorously adhering to the fulfillment of the program, the Republic will reach a stable level of irreversible market-economic development in all spheres of economic activity. It is important to accomplish this serious development policy in a qualified, skilled, and persistent way. Strategy and tactics have already been decided upon. There is no way back. Creating a market economy, with a social welfare system for the population, is the only way forward.

EIR: The breakup of the U.S.S.R. has had many negative implications for Kyrgyzstan, above all hyperinflation, the breakdown of important production relations and the distribution system, and the end to financial support for the energy sector and other branches. This led to a dramatic decrease of industrial production, by about 25% between 1992 and 1994. It was, indeed, in a difficult situation that Kyrgyzstan was trying to accomplish the transformation to a free-market economy. Could you, for instance, tell us how privatization was pursued?

Jumagulov: You are right. Kyrgyzstan did indeed experience hard times, with devastating hyperinflation, and the collapse of the economy as a result of the breakdown of economic and other relations. Wages and pensions were not paid for five to six months. It was in this period, in December 1993, that I once again, after three years, led the Government of the Kyrgyz Republic and, as far as I can remember, it was in that year of 1993 that inflation reached 1,366% and the decline in production exceeded 26%. But, thanks to the measures which were taken, it was possible to alleviate the situation.

The main task was to pursue the transition to a free market economy boldly and deliberately. We liberalized prices for an absolute majority of products; we liberalized foreign trade, removing duties on exports and establishing a single tariff of only 10% on imports, excluding excise duty products, of which there were 12-13. Subsequently, even their number decreased.

At the same time, we carried out a systematic privatization plan. So far, 6,400 objects have been denationalized and privatized in the Republic, including 88.2% in industry, 57.3% in building and construction, 97.2% in trade and public catering, and 100% in the consumer service sector. In total, the share of denationalized and privatized companies is 63.8%. In the beginning, I have to admit, the privatized companies did not bring the expected results and there was a lot of disappointment in this respect, and, of course, a lot of criticism. The not-so-nice word *prikhvatizatsiya* [a Russian pun on *privatizatsiya*, or “privatization,” meaning “grabbing”] was invented. Maybe, in some places this kind of *prikhvatizatsiya* did occur during the first phase of the process, but, generally speaking, one can say, that privatization was accomplished in the general interest.

Gradually, the privatized companies started to operate in a better way. Tough measures were taken regarding supervision, transparency, and law enforcement. Here, too, the firmness and steadfastness of President Askar Akayev was of great help.

We have, during this time, gone through a number of phases. In the first phase (1991-93), the legal foundations were laid for denationalization and privatization and the corresponding organizational structure was created, the State Property Fund, and, of course, a lot of experience and skills were assimilated. In this period, the so-called small-scale privatization was being pursued, above all comprising trade and

consumer service, small and medium-sized companies, and collective and state-owned farms. There was also extensive privatization of apartments, using a coupon system.

In the second phase (1994-95), we saw substantial changes in legislation and in staff organization. Corrections of mistakes and violations were made. Reorganizations of medium-sized and large companies in the productive sector, i.e., industry, transportation, construction, and other branches, were accomplished, through procedures of auctioning out, in open competition, stocks in state-owned companies. Another novelty was in the field of state-owned property management, introducing an institution of state representatives in contractual associations.

The main attribute of the current third phase, starting in 1996, consists in the creation of a concept of the reorganization of basic industry — in the mining, telecommunications, electric power, and oil and gas sectors, as well as in the tourism industry and others — and its confirmation by the government and approval by Parliament. This process has only been started.

Which were the negative elements, errors, and mistakes? They occurred, mainly, in the first period and, to a certain extent, up to the second half of 1994, until the elaboration of legislative acts and documents took place. Thereafter, with more public participation, there was more openness and fewer errors were made.

1. One of the most serious errors, perhaps, was that the State-Property Fund was given too extensive rights. It had the right to make its own decisions, without first having received approval from the government. This was a big mistake, which was later, maybe too late, corrected.

2. At the beginning of the third period, the elaboration of a business concept was delayed, resulting in a slow pace of the privatization of large basic industries.

3. Many companies and other objects were sold at prices considerably lower than their book value. We are convinced that this was the correct policy, but as a result of the lack of openness in every specific case, there were various kinds of false interpretations, particularly from the opposition, which, in turn, created an atmosphere of nervousness and some time was lost. That is why these companies show a low level of productivity.

4. There were some problems with the local authorities, concerning the fields of responsibility in the privatization process.

5. There was a certain passivity on the part of various industrial ministries. In a word, there were errors of a non-essential character, which have been corrected. But despite great difficulties and its substantial complexity, the privatization was, in our opinion, accomplished successfully. Our task now lies in the field of management. We think, that in order to achieve this aim, the structural transformation of the economy must, first of all, be pursued by implementing a corporative form of management, awaiting further reorganization of pri-

vated companies, together with liquidation through a bankruptcy procedure of unprofitable companies and other measures.

EIR: As part of its transition program, the IMF demanded a reduction of budget expenditures, which had implications for the social sector, including health care and medical services. On Aug. 20, Minister of Labor Imankadyr Rysaliyev announced that the government is planning further reductions of budget spending for the social sector by about 80 million som [\$4 million]. If one bears in mind, that Kyrgyzstan has a highly qualified workforce, which depends on a well-equipped social sector and education, etc., one must wonder why austerity measures have to be made here, instead of further developing this sector?

Jumagulov: As far as I know, the IMF always gives qualified recommendations, starting from the means the Republic has at its disposal and what they can be used for. But it is up to the Republic's government to decide where to direct this money, and where, strictly speaking, one must tighten the belt. It is absolutely as a last resort, as a rule, that austerity measures have to be made at the expense of the social sector. In this case, I think, it is a question of reducing some social services that can be dispensed with, or the kinds of social benefits paid to wealthier layers of the population. For instance, you can, in a differentiated way, raise tariffs on electricity, and target aid to poor, disabled, and elderly people.

I agree with you, that it is not appropriate to make cuts in the social sector. It is necessary to further develop it and raise the competence of its employees. But this can be carried out at the expense of the employers, and not always at the expense of the state.

EIR: Kyrgyzstan has concluded trade agreements, agreements on economic cooperation with various countries in the region, among them a customs agreement with Kazakstan and Belarus, an economic union with Kazakstan and Uzbekistan, and the creation of an organization for economic cooperation, EKO. What is the main purpose of this cooperation?

Jumagulov: The main goal of this cooperation is an economic space, a market. A market where you can sell products and raw materials, and, at a reasonable price, purchase raw materials and finished products for your own market. It also means markets for the development of small and medium-sized business, all without taking away from relations with other states and nations.

EIR: Kyrgyzstan is strategically situated along the historical Silk Road, both to the north and to the south. The Kyrgyz government is planning to construct roads and other kinds of communication links. Could you, please, say something about these plans? In what way do the planned projects connect the country to the Eurasian bridge between China and Europe? How will these infrastructure projects be financed?

Jumagulov: Communication between the northern and the southern regions of the Republic is carried out by railway, which, rounding the Tian Shan Mountains in the west, goes through the territories of Kazakstan, Uzbekistan, Tajikistan, the densely populated regions of the Fergana Valley, and is 1,200 kilometers long. An old dream of the Kyrgyz people has been to connect the north and the south by railway. This dream has started to come true. The total length of the railway is about 360 kilometers. This year, we have started to build its first segment, with a length of 145 kilometers. The railway goes through mountain regions with rich supplies of coal and other minerals, and this is also where Kyrgyzstan's large water power resources are concentrated.

In order to successfully implement this aim, the urgent necessity of connecting this link with the railway system of the P.R.C. arose. This could be done, building a link from the Kazarman village (or at any place along the north-south route) up to the Chinese border, for example, up to the village of Torugart. From Torugart to the large city Kashi, in China, is only 130-150 kilometers and, in the immediate future, the railway connection of Kashi will be ready. Then, our Republic will be connected to the eastern regions of the P.R.C., right up to Shanghai, and, through Uzbekistan and the other countries, to the European countries, including Germany. For Europe, the shortest way to China will be opened. Moreover, this means a lot of construction works (railway tracks, bridges and tunnels, hydro-electric power plants, mining enterprises, and many other infrastructural objects). Uzbekistan and China are interested in the realization of these projects, in addition to Kyrgyzstan. The project is supported by the Asian Development Bank. We invite everyone interested in large-scale business, to take part in the project.

EIR: The majority of foreign investments into Kyrgyzstan go into the mining industry, the extraction of raw materials and minerals, above all gold. Some large projects and joint-stock companies have, during the last few years, been initiated, for example in Kumtor, Jeru, and Taldybulak. Could you, please, say something more about this? There was, in May, a terrible accident at the Kumtor enterprise, which evoked sentiments of strong resistance within the country. How did this happen?

Jumagulov: Kyrgyzstan is rich in gold. The three mentioned deposits had all been thoroughly prospected over a long period. But there are other places, where indications of gold have been discovered, which demand proper attention. If they are explored, they will probably turn out to have great future prospects, with large deposits. They have, so far, only been superficially explored.

Kyrgyzstan is rich not only in gold: Next to the Kumtor gold deposit, there are prospected supplies of tin, tungsten, and gold, to which a good road, and an electricity transmission line, have been built. The only thing to do is to start exploitation. A small factory has also been built, which after the break-

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up of the former U.S.S.R., is waiting for investments. We have, for the moment, not enough means to finance this. Kyrgyzstan is also rich in other mineral and raw-material resources: rare mineral elements, antimony, mercury and other non-ferrous metals. Kyrgyzstan has great prospects in the field of oil and gas, and also building materials like facing bricks.

Concerning the accident of the vehicle carrying cyanide in Barskaun, it was, no doubt, an unpleasant and extremely serious accident. But one must avoid turning it into a tragedy, and even taking political advantage of it. Yes, it was a serious accident, of a kind that must be excluded in the future. As far as I know, the management of Cameco has taken measures to prevent such accidents in the future. It occurred because of bad discipline, lack of responsibility among those responsible for cyanide transportation, and absence of monitoring, and, one might add, the negligence of the Cameco management to take these kinds of security measures in any case. These measures should already have been taken.

The deposit should be exploited with the same intensity as in 1997. It is a unique, high-performing project, which was realized in very short time. It is necessary to learn a lesson from the mistakes, and not let it happen again, and continue to work.

EIR: The financial and economic crisis, spreading over Russia, threatens the whole global economy. What is the immediate impact of the Russian crisis on the Central-Asian republics, and above all on Kyrgyzstan?

Jumagulov: The financial crisis which has seized Russia will have a direct impact on the Central Asian republics, including Kyrgyzstan, and, if adequate measures are not taken, it will, indeed, have serious implications. Now, measures are being taken by the government to alleviate the consequences of the Russian crisis, but it is, probably, impossible to do so completely. Of Kyrgyzstan's total foreign trade turnover, according to the results of the first half of 1998, 53.8% took place within the CIS [Commonwealth of Independent States], with Russia accounting for more than half of it. The situation in Russia has always had an impact on the economic climate of Kyrgyzstan, and economic animation in Russia has always implied increased well-being for us. Therefore, we always pay great attention to how things develop in Russia and take what measures are feasible.

What kind of measures we now are taking, demands a more detailed discussion. We have, indeed, got into a difficult situation, due to the unpredictability, duration, and depth of the Russian crisis, but I do not have any doubts, that Russia, its government, and parliament, will get the strength to overcome this ailment, even though it will be difficult to improve the situation within a couple of months. Russia has an enormous potential and, I think, will, in the next six months, get the necessary strength to overcome this crisis. Let us only hope that the political ambitions of the leaders of the Russian opposition parties may calm down first, because they constitute a destabilizing factor for the economy of Russia and elsewhere.

EIR: At the same time, the crisis in Afghanistan has sharpened, in connection with the recent offensive acts of the Taliban. What are the implications for the security of Kyrgyzstan? What were the topics of discussion and what agreements were concluded during the meeting between President A. Akayev and Gen. N. Bordyuzha, head of the border defense of the Russian Federation [named Secretary of the Russian Security Council in September 1998].

Jumagulov: The civil war in Afghanistan, is, of course, a matter of great concern to us. All parties would gain from peace in Afghanistan. Last year, during a session at the UN, Kyrgyz President A. Akayev proposed that a conference on Afghanistan be held in Bishkek, with the participation of all interested countries. This idea was supported by the international community and by our neighbors. We are working in that direction.

Kyrgyzstan has signed, and is also conforming to, the International Convention on Refugees. In Kyrgyzstan, the number of refugees from various regions is rising. The state, being itself in a difficult situation, is giving aid to the refugees, providing a minimal subsistence level for them.

Kyrgyz and CIS peace-keeping forces are stationed along the border on Afghanistan, but problems are immense. Drug-trafficking is increasing every year, from the warring Afghanistan to Tajikistan, and, through Kyrgyzstan, farther into the European countries. We are very well aware of this serious situation, and are, in collaboration with the international community, taking resolute actions against the dissemination of this evil. But, much remains to be done to prevent this plague from becoming a common phenomenon here, and to stop its spreading into Europe. We have to raise substantial barriers

and try to get at the root of it, and stop the production where it takes place. While drug-traffickers in the past were caught with raw opium, now, it is not unusual for them to try to transport heroin. This means, that underground laboratories are already operating somewhere.

The situation in Afghanistan has become aggravated by Taliban aggression, which also requires full attention from all countries in the region. Despite announcements from the Taliban leader, Mullah Muhammad Omar, that they have no intentions to leave the borders of Afghanistan and intervene in the internal affairs of Iran or the countries of Central Asia that neighbor Afghanistan, their advances to the borders with Tajikistan and other countries, is a matter of great concern for these states. There have been phone calls between Kazakhstan's President N. Nazarbayev and the Presidents of Kyrgyzstan, Uzbekistan, and Tajikistan. The heads of the four Central Asian countries expressed great concern about what is going on in Afghanistan, and the intensified war activities of the Taliban. The foreign ministers of these states have met in Tashkent. President A. Akayev has had extensive discussions in Cholpon-Ata with the Director of the Federal Service of the Russian Federation's border forces, Gen.-Col. N. Bordyuzha, on a number of issues concerning the interrelations between the two countries, including the situation along the border on Afghanistan.

'Serbian withdrawal' from Kosova is a fraud

by Umberto Pascali

On Oct. 27, NATO decided to suspend the threat of air strikes against Serb military targets in Kosova and Serbia. The official reason was that Serbia's Slobodan Milosevic had complied with the terms of the NATO ultimatum: to withdraw from Kosova the troops that devastated the region for seven months. Oct. 27 was the final deadline of the thrice-extended ultimatum given to Milosevic. About 4,100 Serbian troops "withdrew," nobody officially knows to where, but 25,000—15,000 military and 10,000 from the infamous Special Police—remained. It is not known how many men from the vicious paramilitary "Greater Serbian" gangs are active at the moment, although some local reports say that the number has increased. These gangs are mostly recruited from other areas of former Yugoslavia, according to a centuries-old plan to "colonize" Kosova by expelling the ethnic Albanians.

The whole situation appears confused and paradoxical. As is often the case concerning negotiations with Milosevic, everything ends up contrary to what had been officially agreed upon, especially when Milosevic is named the guarantor of the deal. Moreover, as senior Balkan officials remarked, the negotiations between U.S. envoy Richard Holbrooke and Milosevic were conducted with a "total lack of transparency." The details and strategic outline of the deal they concluded is not publicly known.

The secret war

Sources that have dealt directly with the Balkan nightmare over the last terrible decade have told *EIR* that one of the main sources of confusion is the naive interpretation of Milosevic's strategy that seems to dominate Western media and Balkan scholars. What is often overlooked is Milosevic's source of power, which comes from the Western circles that inherited the old French-British Entente Cordiale, and the Serbian intelligence capability. This capability, and propensity for provocations and dirty tricks, is in evidence not just in the outright genocide, but in the manipulation of the ideological weaknesses of the "dominated populations." This applies in particular to Kosova. After all, the initiator of modern Serbian intelligence, at the beginning of this century, was Colonel Apis, who engineered, on behalf of his masters in London and Paris, the assassination of Archduke Franz Ferdinand of Austria on

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