

**Helsinki Commission Briefing on Tajikistan's Upcoming Presidential Elections
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**Testimony
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Tajikistan: Where It's Come From, Where It's Going

Good afternoon and thank you for the invitation to speak on Tajikistan's economic prospects and challenges. As you have been told, I was the World Bank's country director for the five Central Asia republics, including Tajikistan, from October 2001 until January of this year when I retired from the Bank. During that time I was stationed in Almaty, Kazakhstan, and came to know Tajikistan and Dushanbe well.

The statistical information I will share with you today is up to date, but I should warn you that I don't have the same hands-on feel for Tajikistan I had when I was living in the region. Central Asia is a fluid and rapidly-changing part of the world, so it is possible that I am missing important nuances that have developed since I left the region in January. With that caveat, let me offer the following remarks. I want to start by giving you a brief sense of where today's Tajikistan came from, then turn to its current economic circumstances, and end with a discussion of both the challenges and the changing investment landscape that will determine its future.

You have already heard a bit about Tajikistan's recent history, but I want to underscore a couple of points because they influence (or should influence) how we see Tajikistan today. Tajikistan is one of the rare post-conflict success stories. Less than a decade ago, the country ended a bloody civil war. As the war came to a close, the government faced a country in which per capita income had fallen by some 85% since the final days of the Soviet Union (in contrast, consumption during the entire Great Depression fell by 30%). Since shortly after the peace agreement in 1997, the country not only has consolidated politically, but also has shown remarkable economic performance, albeit from a low base. Growth from 2002 to 2005 averaged 10% and is still projected to be a highly respectable 8% in 2006, and in the range of 7-8% in 2007. This robust growth has lowered poverty to a still high 60% in 2005 from a very high 80% in the late 1990s.

Driving this growth has been a massive inflow of remittances, thought to be in the neighborhood of 30% of GDP, from Tajik migrant workers mainly living in Russia. But the country also has done a good job of managing its macroeconomic climate, including maintaining a reasonable fiscal balance and keeping inflation to single digits. Debt forgiveness by the IMF and by the Russians lowered Tajikistan's debt to GDP ratio to a manageable 40%....but more on this issue later.

As I say, a pretty good story for a country that was at war with itself a decade ago. But a country's past performance is not necessarily a good predictor of its future. Let me turn now to what we need to watch in the coming years. Although I am not tasked with

commenting on Tajikistan's political landscape, a word on President Rahmonov who is coming up for certain re-election on November 6. Whether one likes it or not from a democratic perspective, the President has done an amazing job consolidating his power base over the past five years or so. This consolidation has led to a vast improvement on the security front, and to the internal stability that has underpinned the economy's success. For example, when I first went to Tajikistan in early 2002, Dushanbe was still a non-family post for most expatriate organizations, travel outside of Dushanbe had to be managed with great care, and significant parts of the country were not under Dushanbe's control. All that has changed. Rahmonov is now firmly in power, has no obvious challengers, and the country is—for the most part—safe. At least for now, Rahmonov remains central to Tajikistan's stability. And as long as growth continues at reasonable levels, he is unlikely to be challenged, or challenged successfully. The all-too-recent memory of civil war keeps stability foremost in the minds of most Tajiks.

On the economic front, Tajikistan's future will depend importantly on its citizens having continued access to the Russian labor market. But remittances cannot be Tajikistan's only engine of growth. I would look to the handling of five issues, all but one related to diversification, as bellwethers of Tajikistan's future:

- **First, how Tajikistan manages its aluminum smelter business.** TADAZ, the state aluminum smelter company, accounts for 30% of the country's exports and 40% of both industrial production and electric power use (billed at very low rates). There is much external interest in TADAZ, and, more generally, in expanding Tajikistan's smelter industry especially by RUSAL, the Russian aluminum company. However, the economics of all this remain murky. Tajikistan imports all its alumina at considerable cost, and processing it is—or has been—economic only with very cheap power, considerably less than 1 cent per kilowatt-hour. New hydro-generation projects will need to sell power at prices higher than this to make them economically sound.
- **Second and related, how Tajikistan's hydroelectric market develops.** Tajikistan uses less than 10% of its hydroelectric generation potential. With power hungry neighbors to the east and south, and maybe to the west and north, hydro-generation capacity is a major item on President Rahmonov's development agenda. Just how these deals are done will determine how much good they do Tajikistan, as opposed to special interests.
- **Third, how the government manages the farm debt issue.** With the break-up and privatization of the large Soviet collective farms, the new owners inherited large amounts of debt owed to suppliers and others from the old system. Estimates suggest that on the order of half the face value of this debt is fictitious, arising from over pricing inputs bought on credit. A work-out scheme that gives small scale farmers a chance to get out from under their debt burdens is essential to agriculture and rural development.
- **Fourth, how new investment partners affect resource allocation.** While Tajikistan is not resource rich in the sense that Kazakhstan is, it is of strategic interest to its neighbors, especially Russia and China. Both countries have shown

serious investment interest in Tajik projects. Russia's RAO-UES is the prime mover in an effort to complete Sangtuda II, an economically viable hydroelectric project begun in Soviet times. China's Export-Import Bank has recently signed three agreements with the Tajik government totaling over USD \$600 million, around 25% of Tajikistan's GDP, to support two transmission lines and one road project. These investments raise two broad sets of concerns. The first is whether and how fast they will move Tajikistan back to debt non-sustainability. The second is the how the projects were selected and designed.

- **Fifth, how Tajikistan handles its drug problem.** Perhaps the most intractable and dangerous element of Tajikistan's geography is its 1000 kilometer border with Afghanistan. The movement of heroin from Afghanistan to markets in Russia and Europe will continue to challenge the fabric of society and governance in the Central Asian states. Given the sums involved, limiting the damage the drug trade has on Tajikistan will take courage and leadership on the part of President Rahmonov, and patience and perseverance on the part of his international supporters.

Tajikistan is a tough development challenge. It is 93% mountainous, in a tough neighborhood, and it has to contend with a young population, of which 40% is under the age of 15. But it is also a country that seems, for now, to have found its footing after a very difficult start. With judicious and practical support it can and should continue to progress.