The Geostrategic Curse in Post-Soviet States: the Cases of Kyrgyzstan and Belarus

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Abstract

This research is dedicated to study the impact of external rents on economic performance and political institutions of a state. Academic literature focuses mainly on traditional types of external rent, like natural resource revenue and foreign aid. This research widens the scope, including original type of external rent source – geostrategic importance. The use of geostrategic importance with the aim to get money from external benefactors, who are interested in it, brings to the same effect as other types of external rent. To understand it this research is based on case study. Upon it, this research states that geostrategic importance, considered as a revenue-gaining source of external rent, affects economic performance of a state negatively.

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Introduction

Recently many political economy scholars as T. Karl, M. Ross, P. Collier, J. Sachs and others study impacts of natural resources and foreign aid on economic performance and political institutions. These studies are dedicated to resource curse and aid curse theories. At the heart of their studies lies a **rentier state theory**, which studies state's consequences in receiving on a regular basis substantial amount of external rent (Mahdavy 1970, 428). Going in line with this theory the dependence on *any* type of external rent can in certain ways bring to economic underdevelopment. The goal of this research is to show this assumption, excluding traditional rents as resource curse revenue and foreign aid from this analysis. Such limitation will prove, not only natural resources and foreign aid can be considered as a curse. It will expand the research object of a rentier state theory, hence widening the scope of its applicability. Therefore, this research focuses on a **geostrategic importance** of a state as a source of external rent. A geostrategic salience as a strategic resource is profitable in case when external benefactors are interested in it. Respectively, this paper describes and analyses a rentier states with geostrategic importance for external benefactors in terms of location and willingness of governments to be the part of the geostrategic play. In our case these states are Kyrgyzstan and Belarus.

A New Curse

In this study the unit of analysis is a rentier state with geostrategic importance for external benefactors. Going in line with aforementioned curse theories, resource curse studies negative effects produced by means of national assets (see Kart 1997; Humphreys, Sachs, Stiglitz, 2007; Gel'man, Marganiya 2010, Ross 1999; Ross 2001; Leite, Weidmann 1999; etc.) and aid curse studies impacts of financial aid on economic performance (see Djankov, Montalvo, Reynal-Querol 2009; Morrison 2010; etc). In this

research I try to present a new type of curse, naming it **geostrategic curse**[1]. It explains the use of country's geostrategic location as a revenue-gaining resource, evaluated as an external rent. This concept was used by the PhD professor in political science from the University of California, Los-Angeles, Varkey Paul. He explained this concept in the work *The Warrior State. Pakistan in the Contemporary World* (2014, 17-34). In this work Paul studies an unsuccessful developmental process of Pakistan and depicts geostrategic importance as one of the causes of economic and political stagnation. Because of the geographic location and willingness of the Pakistani elite to play geopolitical game, this state is geostrategically important for the US. On behalf of the great power Pakistan received rents for geopolitical service, hence, becoming a rentier state. Hitherto external assistance was enough to maintain political and economic workability. Paul also stresses the similarity of natural resource and foreign aid curses with the geostrategic importance. All of them provide easy money for government, and extremely valuable status for great powers makes no need in long-term investments or developmental reforms in order to survive. The scholar also accentuate that the dependence on geostrategic importance does not affect positively on employment, literacy rate, health, education and other factors.

In the light of a new curse there derives the question: *How does geostrategic importance for external benefactors, considered as a revenue-gaining source, affect economic performance of a state?* Therefore, I assume, if a state receives substantial rent by exploiting its geostrategic importance, then economic performance is to be worsened, on presuppositions that it does not have other major alternative revenue channels like primary commodities.

[1] Before the publication of T.V Paul's work in 2014, this research already has been studying this new concept since January 2013. The idea of the geostrategic curse occurred independently from Paul's work, which means both works simultaneously and independently came up with this idea.

In the framework of the rentier state concept the aim of this paper is to demonstrate external rent, derived by indigenous resource (geostrategic location), as the causal mechanism of geostrategic curse. On the analogy of resource curse, in geostrategic curse a state uses its geostrategic location as an asset with no expenditures from its use. On the analogy of aid curse, a state uses this asset to get financial support from external benefactors. In order to understand this new type of curse this paper uses both theories –resource curse and aid curse.

The puzzling part of this study is to show, not only natural resource revenue and foreign aid, but also unusual type of revenue can be evaluated as external rent and produce economic downturn. In this case it is geostrategic location. Consequently, the selected cases Kyrgyzstan and Belarus, being resource-poor countries, represent negative impact channels of geostrategic importance on economic development.

Relevance of the Problem

The purpose of this research relates with the fact that scholars like Kevin M. Morrison, Simeon Djankon, Jose G. Montalvo used resource curse theory to explain negative foreign aid effects on economy and political institutions of recipient states. They found that foreign aid that provides a windfall of resources to recipient states can be considered as a curse due to a negative impact on political and economic institutions (Djankov, Montalvo, Reynal-Querol 2009; Morrison 2010). This literature demonstrates the alternative use of resource curse approach and highlights different kinds of curses that have the same effect as natural resources. The idea to analyze geostrategic importance as a curse occurred by the fact that Belarus, being the object of interest to Russia, faces economic recession together with it simultaneously. Along with economic growth in Russia, Belarus is also growing. This suggests, Belarus is dependent on Russian economy. And as Russia has a military base in Belarus, it is a highly important

region for Russia. This situation made me think about the influence of geostrategic location on economy; hence Belarus acting as a rentier state uses its importance for Russia to extract revenue. This study covers a new way of evaluating curse theories – the study of state's geostrategic importance as a curse.

Consequently, this paper broadens the framework of resource curse and aid curse theories by supplementing a new type of "curse". At the core of these grand theories natural resources and foreign aid do not influence negatively on economy and political institutions. Geostrategic curse depicts here that the use of revenue plays a vital role in these theories, i.e. effortless revenue is a catalyst of "cursed" aftereffects. Particularly revenue management influences on political institutions. In this case the study specifies a type of revenue gaining. Therefore, it helps to look at curse theories from another angle and to fill gaps in the literature.

Structure

The structure of this paper has introduction, three sections, and conclusion. The first section reveals theoretical and empirical evidences, which derive from resource curse and aid curse approaches. It reviews literature that portrays the link of natural resources with poor economic and political outcomes. There is to be shown negative outcomes derived from natural resource revenue as well as successful stories pointing out certain conditions, which help to understand causes of curse. The second section draws the methodological part of this paper. The research defines the structure of analysis. The method to be used is oriented to study institutions that explain poor economic and political outcomes. The last section is empirical part that analyzes the elected cases from the perspectives of geostrategic curse. Based on these cases I discuss how geostrategic importance might be a cause of poor economic and political outcomes.

Chapter I

The abundance of natural resources, especially oil and gas, is considered as a curse, which worsens economic, social and political institutions of a state. As a fact we can bring 15 newly-born sovereign states after the collapse of the Soviet Union. They demonstrate divergent development in all three dimensions. Some of the countries, as Turkmenistan, Kazakhstan, Azerbaijan, are resource-rich. Comparing their economic development with the Baltic States, which are scarce in natural resources, we observe strong differences developmental process. Nevertheless, it is not the only curse wandering in academic literature. Foreign aid is also considered as a curse. Burkina Faso, Mauritania, Niger, Gambia are examples of it, which also affects negatively on economic and political institutions.

Both – natural resource revenue and foreign aid – result in poor economic performance. However, evaluating alternative studies on resource and aid curses (see Weinthal, Luong 2001; Bulte, Damania, Deacon 2005; Brunnschweiler 2006; Girod 2009), we can observe the fact that the presence of resources and foreign aid does not always act the same way as theories explain. Therefore, in order to understand the outcome of poor economic performance, we need to understand the process, how poor performance appears. In the framework of the rational choice metatheory actors of curse theories are acting in a way to maximize their utility by strategic behavior like achieving the goals through the expenses of others (Hindmoor 2006, 195-199). Consequently, in these theories there is a causal connection of the influence of natural resources and foreign aid on poor economic performance. Negative aftereffects are not results of the presence of natural resources or financial aid, but, rather the management of the external rents. Consequently, to understand, how geostrategic importance can

influence economic conditions and political institutions, it is important to analyze the rentier state concept along with resource and aid curses.

1.1 Rentier State

The concept of a rentier state was first developed by the Iranian scholar Hussein Mandavy in the work *The Patterns and Problems of Economic Development in Rentier States*. Countries that receive on a regular basis substantial amounts of external rent are called rentier states. (1970, 428) Mandavy explains his concept on the Iranian case by pointing out the deviations of growth from the time of Iran's oil nationalization movement. He shows a rapid growth of the state by presenting a tremendous export of oil and its revenues. The difference of export value of oil and other production is great. Accordingly, the scholar states that economy that gains substantial revenue from export of indigenous resources is not a subject of long-run growth. The reason consists in the use of external rent to import for consumptions purposes. Consuming sector has "extraordinary" expenditures and less input in productive sector. And this imbalance of input-output matrix in rentier economies demonstrates the dependence of economy on external rents.

There have to be certain preconditions in order a state to be rentier. Studying the Arab states, scholars G. Luciani and H. Beblawi identified 4 patterns of rentier economy (1990, 85-88):

1. Predominant rent situations;
2. Dependence on substantial external rent, rather than internal rent, which is sustained with a strong productive domestic sector;
3. A small group of population is creator of wealth;
4. Government is the principle recipient of external rent in economy.

Another issue that must be highlighted is that rentier economy creates a specific mentality. Beblawi calls it a *rentier mentality* (88). Rentier economy distorts the work-

reward causation. Here reward – wealth – is not related to work, but to a chance or a situation, like a windfall gain, where in a normal economy reward is linked to a process of a work with the final result of a fruitful production.

Consequently, in the light of this concept the importance of geostrategic location for external benefactors can be evaluated as an indigenous resource, which on its part can provide in external rent by trading this resource, as, for instance, leasing important military locations. Along with this pattern a state has to have significant resource revenue of total government revenues, so we can claim, state depends on external rent. And the important part is the distorted work-reward causation. However, since geostrategic location as a resource does not represent the economic values completely, it cannot provide any working places as an export industry. All revenue derived from this indigenous resource can be split in a manner to escape the dependence on substantial external rent. As an alternative, this type of external rent can be the jolt toward a long-run growth, if the expenditure pattern is headed for future constant profit gaining scheme, based on internal rent. To see negative political and economic consequences resource and aid curses are examples of how external rent influences economy.

1.2 Natural Resources

As discussed above natural resource revenue and foreign aid are pure examples of external rent. Throughout the time we notice a tendency toward an underdevelopment in resource-rich countries. Before explaining effects of resource and aid curses, it is important to mention natural resource characteristics. Firstly, natural resources do not need to be produced. It involves only the process of extraction. There is no failure of reimbursement of costs and also no need in high labor efforts. Therefore, revenue from primary commodities must be observed as rent, which is simply the difference of price and marginal costs. Since natural resources themselves have natural price, then the rent

itself is natural, which is the resource price without extraction. In other words, it is effortless revenue; state gains it on the expenses of nature. In addition, natural resources are non-renewable and exhaustible. So, they cannot be considered as a permanent source of income, but only as asset. Hence, its income is neither constant nor long-run. (Humphreys, Sachs, and Stiglitz 2007, 3-4, 155-156)

In most recent times, economists and political scientists have proposed theories to explain disappointing growth performance and macroeconomic aftereffects in resource-rich countries. A major contribution to resource curse theory was made by Sachs and Warner (1995), who found a negative relationship between natural resources and growth in a large cross-country study. To understand this relationship, we need to go through the main studies of resource curse. At first resource-rich countries were considered as economies **dependent on staples**. In other words, they are countries that do not produce but only replace one type of staple with another. So, economies of resource-rich countries are formed by a primary commodity, dominating economy's export production. The economic growth is determined by replacement of one staple with another. The good example of this developmental process is Canada, which have been producing, firstly, furs, wheat, timber, and now is producing oil and minerals. However, analyzing the influence of primary commodity export on developmental process, scholars deduced that it might be either positive or negative. It depends on resource sector's relationship with other economic sectors. When the resource sector stimulates growth in other ones, which produce and modernize instruments for economy and particularly for resource sector (like tankers, derricks, etc), resource-export economy is diversifying. But if this relationship is weak and resource sector does not stimulate growth, then there will be the dependence on staples and economy will stress

only on natural resource export. In these circumstances state falls into the staple trap. (Polterovich, Popov, and Tonis 2007, 27-28; Auty, Kiiski 2001)

The replacement of one staple to another is only one side of the coin. Going deeper into details two economists R. Prebisch and H. Singer postulated, export of commodities would result in a fewer import of manufactured goods straightly related to a level of export. They pointed out the tendency toward the reduction of relative prices on primary commodities versus manufactured products made from raw materials. They suggested that the proportion of primary commodity production in GDP will decline due to the results of technological progress. It follows from this that producers and exporters of raw materials will rise more slowly than countries that specialize in the production of manufactured products. (Polterovich, Popov, and Tonis 2007, 27; Ross 1999, 301) Recently, their assumption was tested by controlling 25 different commodities from the 17th to the 21st centuries. The results confirmed that significant number of commodities deteriorated the trend of growth rate (Harvey et al. 2008). The reason is that price of purchased raw material, cost of production and markups are embedded in manufactured product. And this product, finally, will buy resource-exporting countries. Better to say, from a pound of oil there can be produced a pound of pens, which will cost more than unrefined raw material.

Similar explanation was proposed by F. Rodriguez and J. Sachs (1999), who tried to explain through the general equilibrium model a lower growth rate in resource-rich countries. They assumed that productivity growth slower than capital and labor, because "they are likely to be living beyond their means". They stated that economies overspend and overshoot the steady state's equilibrium; therefore, we display a negative growth rate. This model was calibrated to the Venezuelan economy to show the economic performance after the oil bonanza. According to the results, resource-rich economy

exceeds the steady-state level of income per capita, and then returns to it, showing negative growth rate. So, the scholars explained the negative economic growth in Venezuela after 1972.

However, along with this explanation economists, studying oil boom in the 1970s, added concerns about nature of natural resource revenues, which were **volatile** and led to economic crisis (Karl 1997, 161-174; Collier 2007, 40-42; Humphreys, Sachs, and Stiglitz 2007). Volatile revenues are difficult to manage. States start raising the level of expenditure budget, not noticing the fluctuation of commodities prices. During the fall of commodity prices state economy faces a big gap in received revenue from export of natural resources. Terry Lynn Karl (1997) demonstrates this on the example of Venezuela. In 1970s there was the similar situation with the USSR. The country saw a rapid growth during the high oil prices, but in the 1980s during the fall of oil prices, the financial collapse of the Soviet economy happened. (Gaidar 2007)

Such sudden turnaround of events shows a rapid downward trend of economic situation. Natural resource revenue also has a long-term effect, explained by the **Dutch disease theory**. (Ross 1999; Karl 1997; Collier 2007, 38-52) This theory describes negative macroeconomic consequences of resource bonanza due to failure of market. Prima facie resource bonanza gives opportunity for developing countries to develop. But it also can go on an opposite direction. In the framework of the Dutch disease economy divides into three sectors: booming (resource), tradable (agriculture and manufacture) and non-tradable (service). Booming sector of economy becomes the most attractive object for investment. It shifts investment from tradable sectors into booming one by cutting budget of tradable sectors, so all expenditures go to booming sector. So, manufacturing and agriculture sectors start performing more poorly than anticipated. (Gel'man and Marganiya 2010; Humphreys, Sachs, and Stiglitz 2007; Sachs and

Warner, 1999) Technological innovations spill over from other sectors into booming one. So, large earnings from oil and gas are results of adverse effect on sectors of economy that are motors for sustainable economic growth. (Gel'man and Marganiya 2010, 123-129) Moreover, radical changes happen in three economic sectors. As booming sector does not need considerable labor force to preserve the production, all labor force from manufacture and agriculture move into other sectors, especially service sector. Therefore, the country with natural resources must pay attention to give opportunity for workers to move from tradable sector into non-tradable one. (Humphreys, Sachs, and Stiglitz 2007, 252) Consequently, to avoid the high level of unemployment service sector rises. In addition, it means that manufactured products become less competitive, since no money flows into tradable sectors. Therefore, withdrawal of investments from tradable sectors slows down a long-term economic growth and even may turn the pattern the other way around.

In addition resource boom causes the increase of national currency price, because petrodollars from into economy and the amount of foreign currency rises from exports. But the earnings from resource export are volatile, and they depends on the rate of extraction, the nature of agreements between states and international oil companies, and the high volatile nature of resource prices. (Humphreys, Sachs, and Stiglitz 2007, 6-8, 157) Consequently, the resource market does not behave as a regular market. If prices on any product rise, then it is profitable to increase the production. However, in case of price deflation on oil, the image does not change; countries try to extract even more raw materials. (Gaidar 2007, 54-55) It happens in case when states are in a staple trap and because of the increase of governmental expenditures, which continues to grow even after the drop of oil prices. Hence, the problem of resource-dependent countries is based

on the unpredictable budget revenue due to unexpected fluctuation of international market. (Gel'man and Marganiya 2010, 127)

Similar literature related to the research is the article of Djankov, Montalvo and Reynal-Querol (2008) *The Curse of Aid*. The scholars found that foreign aid that provides a windfall of resources to recipient states can also facilitate a rentier state behavior. They claim that foreign aid has a negative impact on political and economic institutions. Upon this article, we can draw parallel with the resource curse literature. In both case states are actors who seek for certain economic goals (growth) through the expense of others. In resource curse case it is the rent money from natural resources (Humphreys, Sachs, and Stiglitz 2007, 3-4, 155-156). Financial aid is also an external rent. Government does not show any effort to receive this aid. It only behaves as a rentier state, seeking the ways to receive financial aid on the expenses of others.

1.3 Resource Abundance and Fake Growth

Besides negative impacts of natural resources on economic and political institutions, there is no doubt that they also have rapid economic growth. Government uses different channels to allocate resource revenue, thereby, to fulfill its obligations and to demonstrate economic growth. One of the channels is large-scale constructions or projects. Resource-dependent countries start to face the **voracity effect**[2]. At the time of very high income, received from natural resource endowment, there is an increase of governmental expenditure, which exceeds revenue from natural resource rent. Regime assumes that revenue from natural resources will always be high. Governmental expenditures begin to grow faster without accountability to population due to the weak political institutions. To demonstrate that government fulfills its obligations, it gives a

[2] The economic scholars Aaron Tornell and Philip R. Lane (1999) define the "voracity effect" as "a more-than-proportional increase in discretionary redistribution in response to an increase in the raw rate of return in the efficient sector" (34).

part from the "pie" to population by realizing ambitious investment projects that do not give any positive returns (Gel'man and Marganiya 2010). It is more like an artificial growth. One of the most vivid examples is the Dubai construction projects, like Palm Jumeirah, Dubai Fountain and other ones that are assessed at billions of US dollars.

According to the Dutch disease effect, state must face the unemployment problem, because labor force along with investment also moves to the booming sector. As this sector is limited with working quota, government has to deal with the unemployment problem; thereby, service sector broadens. In most cases the **repression effect** takes place. The government uses resource revenue to increase size and finance of coercive apparatus (police, army), thus giving additional jobs (Gel'man and Marganiya 2010, 4). Since a big pie of resource money flows into service sector, people start using it for consumption. Here arises a problem (Humphreys, Sachs, and Stiglitz 2007, 175). As an example, Russia demonstrates this repression effect along with the drastic increase of service sector. Resource revenue brings a rise in demand for growing consumption sector. Due to the allocation of resources among population catering and other types of services begin to grow due to the rise of mass demand. It facilitates the price burst. This situation seems comfortable until prices on primary commodities are high. But the time, when prices go down state faces sharp economic decline. Russia faced this problem in the beginning of 2008 economic crisis, when oil prices were falling. By increasing service sector Russia condemned the economy on the pure dependence on gas and oil prices (Gel'man and Marganiya 2010, 193-200).

When state starts facing the Dutch disease effect and tradable sectors shrinks, it starts using the policy of *protectionism,* helping own industries by giving large credits or by restricting imports (Gaidar 2007, 112-113; Gel'man and Marganiya 2010, 197-198). However, this political solution only extends the problem in tradable sectors. At

the end they will face the effects anyway. The main reason of this policy is to remain afloat dying industrial, manufacturing or agricultural sectors, so to fight against unemployment by preserving job-sits. Based upon this policy the subsidized sectors are not competitive on the international market; thereby, they only realize limited, noncompetitive and low quality production. As a result, protectionism solely worsens the economic image of the state (see Gel'man and Marganiya 2010, 198-200).

This repression effect goes along with the **taxation effect**. The last reflects government's opportunity "to purchase the loyalty of the population both through the low level of individual taxation, and personal or group social payments and benefits" (Gel'man and Marganiya 2010, 4). Taxation is one of the important incentives of citizens to participate in political life of their country. However, when there is no taxation, it means that there is no representation. Citizens lose connection with representatives they elected. Until government does not disturb citizens, they do not demand from it. Since the inflow of money is high, government sometimes needs to share the revenue with population, so it spends on mass patronage like increase in social payments, pensions and so on. This replacement of taxation demonstrates that government fulfills its duty to its citizens. On the other hand this action signifies the buy of the political loyalty of citizens; "voters are bribed with public money" (Collier 2007, 44-49; Gel'man and Marganiya 2010, 49-68). All the aforementioned techniques, government uses, only artificially shape the developmental progress.

1.4 The Impact of Resource Revenue on the Quality of Institutions

Social and political dimensions are also subjects to negative impact. They are all mutually complementary, so the failure in development in one of them reflects badly on the rest. Subsequently, the expansion of service sector, protectionism, finance of coercive apparatus, they all deteriorate political institutions. Firstly, one of the negative

effects is based on authoritarianism. If regime before starting the extraction of oil was non-democratic its conditions will be worsened (Ross 2001; Karl 1997; Gel'man and Marganiya, 2010). One of the channels of weakening democratic institutions is caused by the repression effect. Taking into consideration the assumption that state's political institutions are weak, we face the adverse effect on the government-society link. Struggling to preserve power, government uses techniques to buy citizens' loyalty. Firstly, it uses resource revenue to enlarge coercive apparatus. For the leader it is important to control over the political development. In the time of crisis this coercive apparatus will help him to protect his position, because he is a source of their income. (Gel'man and Marganiya 2010, 49-52) Another channel of weakening the democratic institutions is caused by the taxation effect (Weinthal, Luong 2001). It stands side-by-side with the repression effect. As government enlarges coercive apparatus, unintentional repudiation of executive functions takes place. Consequently, to show concern for people, the taxation effect takes place. Government abolishes taxation in return for citizens' loyalty; in exchange it exaggerates the authority. However, this constructed government-society link is not warranted, because there is no accountability of government to society. In this circumstances society looses the real relationship with government. Therefore, citizens lose their influence on government. As we know, taxation is an incentive for citizens to participate in political life of a state. Then takes place an axiom: "No taxation without representation".

Afterwards, these two aforementioned effects result in the *rentier effect*, which decreases public activism and citizen participation (Collier 2007; Karl 1997). To be more precise, the taxation effect leads citizens not to participate in political life as state consumes revenue on mass patronage and buys citizens' loyalty. It is important to consider the weakening of democratic institutions, because exactly they facilitate the

control over resource rent and distribution of revenue. As the level of institutions is low, all the political process will be nontransparent. (Gel'man and Marganiya 2010, 58-64; Bulte, Damania, Deacon 2005; Isham, Pritchett, Woolcock, Busby 2004) Under the impact of these effects, government loses characteristics of strong institutes: transparency, accountability, and credibility. At this point state suffers three types of "stateness" deficits: information, monitoring, and participation deficits. All three of them highlight overcentralization of power, no transparency in political decision-making and absence of society's political participation. To escape these deficits and to renew strong government-society link, there must be the open trustworthy public information on state's political and economic decision-makings, including the operations in booming sector. (Humphreys, Sachs, and Stiglitz 2007, 264-278)

So, the presence of natural resources might weaken the quality of political institutions. It can be the reason of government's unwillingness to strengthen institutions. Accordingly, the arguments cast doubt (Brunnschweiler 2006; Bulte, Damania, Deacon 2005), because there is possibility of high revenue to be invested in economic development and we observe a substantial economic growth in resource-rich countries. Nevertheless, the influence of resource revenue must depend on the position of a state. Authoritarianism along with low quality institutions rises under the influence of resource-dependent economy because of a rentier state behavior. It is necessary to notion that resource revenue effects negatively in case of low-level institutional development (Robinson, Torvik, Verdier 2006). It argues that there is an institutional threshold, below which resource-abundant states worsen institutional quality. If the initial quality is above threshold, then resource revenue will not influence it *significantly*. (Gel'man and Marganiya 2010, 73-93)

This issue was observed in several empirical studies. Robinson, Tovrik and Verdier (2006) in their work demonstrate the different impacts of resource revenue on economic politics. It depends on the institutional development. If institutions are weak, then revenue will be the political resource, which might affect elections, time in office, etc. Ex alter parte in states with developed institutes the use of revenue for political purposes is not beneficial; therefore, under these conditions resource abundance is not harmful for the well-being. Leite and Weidmann (1999) also find out the threshold effect under the empirical study. They concluded that high resource production also increase level of corruption in states with weak political intuitions.

The other negative side of resource curse is resulted in low human capital quality. The features of the development of economic growth are related with abnormal development of human capital. However, in the framework of resource curse states produce low level of human capital (Suslova and Volchkova 2007; Gylfason 2001b). Huge revenue from the import of resources makes country needless of human capital. According to the Dutch disease effect, booming sector absorbs the main share of national savings. In this context the accumulation of physical capital in resource economies results in ousting of labor force from production. On its hand, it results in decreasing investment to labor, respectively reducing human capital (deficit for professionals) (Suslova and Volchkova 2007). In this issue tradable sectors will not develop in country. The stability of economic growth, which is caused by innovations and modernization, is not possible without a high level of human capital. A country with low level of human capital will face negative economic consequences in future.

1.5 Successful Management of Resource Revenue

We cannot reject the fact that most resource-rich countries face huge economic growth. Nevertheless, theory indicates them as failing stories. In order to evaluate the

impact of revenue, the analysis is oriented toward economic development, but not economic growth. It is important to distinguish them. Economic growth mostly focuses on an overall growth in economy and not on information of institutional quality. Simply, there is a distinction between income and well-being, which consists of divergent factors, including income (Slottje 1991, 684; Sen 1988, 12-13). Economic growth is measured by income itself. However, these income measures do not indicate the way of distribution. They measure the average amount of well-being (Sen 1988, 13-14). Also there can be some technical difficulties with measurement. For instance, the GDP per capita can rise in the circumstances of severe loss of people in numbers, because the measurement of the GDP per capita is calculated by the total of income divided by population, so the reduction of population increases the GDP value. Hence, income measure is not a sufficient development measure, since the total of money does not demonstrate the potential structural weaknesses and strengths, like the quality of education, healthcare, and others. Therefore it is important to look at the political institutions, and the Norwegian case helps understand how to escape resource curse.

Norway is one of the most successful stories that managed to escape resource curse. In order to start the discussion about its success, we have to acknowledge negative points that Norway faced anyway. Initially, Norway has a very small domestic market. Its climate is very severe that reduces the ability to develop agriculture. Moreover, Norway depends on oil revenue, which even exceeds Russian. In overall, Norway started to extract oil in the 1970s. Later, it was confronted by the Dutch disease. Due to resource curse Norway had to look for a new efficient economic path. In the middle of 1990s the influence of the Dutch disease was weakened (Lanko, Yarygin and Kapustkin 2008, 118- 131). This new path brought today's one of the most wealthy and developed states.

In Norway the catalyst of the escape from resource curse was the difficulty of resource extraction (oil deposits in the North Sea), which needs highly qualified personal; therefore, the government started to invest into human capital. The government started to redirect the resource revenue into economically vital sectors. The first goal was to raise tradable sector; so, on the world market their products would be competitive. They got advantage from complex extraction of oil in sea deposits. In order to facilitate the extraction Norway has to produce tankers that fulfill oil industry. So, the second goal was to increase investment into manufacturing, especially tanker-building. (Gylfason 2001a, 303-304) Now this state is on the first list on the world market of tanker production. The revenue from oil is going into manufacture sector and fishery (the only country that produce fresh frozen fish).

The other side of the success is human capital. Every manufacture has specific necessity for the proportion of high qualified labor. In the framework of resource curse, states produce low level of human capital (see pp. 13-14). Due to that labor efficiency declines. Consequently, human capital is a critical factor of production. And huge resource revenue makes country needless of human capital. To keep industry and manufacture on high level state has to invest into human capital. (Suslova and Volchkova 2007) Hence, Norway, as a first priority, invested into education (Gylfason 2001a; 2001b). Since human capital consists of health, education, labor specialization, the Norwegian government uses significant oil revenue to invest in it. Human capital is an important catalyst, which helps tradable sector to be competitive on the world market. The Norwegian strategy of oil revenue redirection gives the country alternative incomes, so the state during oil crisis will be able to keep economy on high level.

Moreover, in order resource politics to be successful, political institutions must reach threshold (see p. 13-14), where they will suffice the pre-requisite conditions for

using the oil revenue. States with democratic institutions (Ross 2001; Robinson, Torvik, Verdier 2006) and strong rule of law (Isham, Pritchett, Woolcock, Busby 2004; Gel'man and Marganiya 2010, 73-93; Humphreys, Sachs, and Stiglitz 2007) are more successful in managing resource revenue in the way a state will not fall into the resource curse trap. As we see in the Norwegian case, the state is democratic; the civic society is inclusive in political life; the institutions are strong, since there is taxation – the subject of governmental accountability, – and, finally, oil revenue maintains free education, good healthcare, labor protection, and other social services.

According to resource curse and the successful management of resource revenue, in this research external rent from the indigenous resource (in our case geostrategic location) are the subject of impact on economic and political performances in Kyrgyzstan and Belarus. Along with these theories I am going to demonstrate the allocation of external rent and how this allocation influences on political institutions. This paper also analyzes the quality of institutions before using external rent. In the case studies I will show how revenue shakes or strengthens political institutions, controlling already built institutions.

Initially, resource curse helps me to draw the analogy on the expenditure budget pattern, how external rent is allocated on sectors of economy. Secondly, in what way the expenditure of external rent is maintained, whether it is the patronage policy or it is headed toward the developmental process, like expenditure on human capital.

1.6 Aid Curse

In order to delineate geostrategic curse, we need to draw attention on the nature of aid curse and the difference of foreign aid and natural resources endowments. The main difference between them is that aid is focused on deliberate development policy

requested by donors. The difference of foreign aid is that the recipient state gets this external rent from external actor. (Moyo 2009, 48-49) The difference of foreign aid and natural resource endowments does not deny their similarities in impacts on economy and political institutions. The reason to describe effects of foreign aid is to demonstrate that not only resource revenue is the aim of rentier states, but also other external rents like foreign aid can be evaluated in the same manner.

Today's foreign aid agencies' policy focuses on poverty reduction in underdeveloped countries. This agenda to support social services, rural and agricultural development fails in many cases. In the book *Dead Aid* (2009) written by Dambisa Moyo, the author demonstrates the negative impact of foreign aid on economic growth and stability. By presenting African states as the most recipient countries, the scholar shows the failure of aid to help restructure economy of African countries. So, poor states become aid-dependent and are deeper in debt. In order to support this thesis, Moyo presents the alternative African states as Botswana that does not receive foreign aid. She compares them to the recipient ones, especially the Republic of Dongo. As a result she depicts that FDI is an engine for economic growth, rather than just foreign loans and grants.

What makes foreign aid a negative factor for economy? Starting with this issue, firstly, we need to understand the role of government in the market of aid. This institution and actor is the ultimate arbiter of resource allocation, which means foreign aid is mostly the target of redistribution by government. Through the history we know that government is not a catalyst for development. For instance, the Soviet government's total allocation of resources was the prime obstacle of development, highlighting that government is the source of economic distortion. Financial aid recipients also allocate money by their own interest and mostly in an inefficient manner.

However, donors launch programmes to facilitate the allocation of aid in a more efficient way. In the 1990s donors insisted recipients to liberalize their economy by pushing the privatization reforms, minimizing the role of the state, liberalizing trade. Taking into account the fact that recipient countries are very poor and failed states, the complete liberalization of their market brought to one scenario – the economic distortion, high unemployment, and rise of poverty rate. (Moyo 2009, 17-22) Due to the weak and unreliable institutions, there is no guarantee that these poor states are able to succeed.

Moreover, aid-dependent governments are accountable to their donors, not to their citizens. Taking into account the factor that foreign aid is not constant revenue, in other words, aid flow is volatile, it means that aid-dependent countries are rentier states. (Klein, Harford 2005, 58-60) For aid-dependent countries the absence of foreign aid means the retrenchment of expenditures on social benefits.

Foreign aid through its nature facilitates political and economic deterioration. As discussed earlier the scholars Djankon, Montalvo and Reynal-Querol in their article *The Curse of Aid* (2009) study the impact of foreign aid on the quality of political institutions. Using statistical analysis, they show the significant negative effect of aid on democratic institutions. The above-average recipients demonstrate political deterioration over the long run. They also find out that highly aid-dependent states face democratic decline over a period of five years. This was very influential study of the foreign aid impact on the political institutions. Even the supporters of foreign aid as Paul Collier confirm that the inflow of aid to states with weak governance and poor policies ends up with failure (2007, 115-118).

Drawing a conclusion, foreign aid mostly goes to countries with weak governance and poor policies, so it makes aid ineffective. Political deterioration is not the only

sidewalk effect aid makes. The findings of the aid impact on economy claim that official development assistance directly reduces economic growth and indirectly hinders growth by increasing government consumption (Klein, Harford 2005, 73-74; Moyo 2009, 60-61). Boone (1996) states that foreign aid facilitates consumption rather than investment; hence, recipients increase unproductive government consumption and give no incentive for investment. Consequently, Boone's findings state that aid increases the size of the government, which relates closely to the increase of government consumption. In addition to the reduction of investment, foreign aid cuts of export sector like industry and agriculture. We already observe this effect in resource curse, especially the Dutch disease effect (see pp. 10-13). Therefore, foreign aid same as natural resource impacts negatively on the competitiveness of industries devastating export sectors and increasing unemployment. (Klein, Harford 2005, 73-74; Moyo 2009, 62-64) Since money are not are invested in the prosperous sectors of economy, but consumption, we observe the loss of better-educated human capital by moving either to private sector or abroad.

Furthermore, aid in states with weak governance facilitates the increase of corruption level (Moyo 2009, 52-56; Abuzeid 2009). Since aid-dependent countries see foreign aid as an unearned income (rent), such state becomes a rentier one, because rather than gain from taxation, it seeks for external source of money. Government, having no accountability to population, spends foreign aid on unproductive and wasteful projects. And here aid becomes the substitute for taxes, where, afterwards, derives taxation effect (see pp. 13-14). So, by becoming aid-dependent country, it becomes a rentier state, which lacks accountability and representation with no necessity of taxation. Lastly, the level of corruption increases.

Besides the opposers of foreign aid, there are some scholars who support it, criticizing "one-size-fits-all approach" (Collier 2007, 108), illustrating certain circumstances when aid is not a curse but a panacea. Burnside and Dollar (1997) confirmed that aid has a positive effect on developing countries with good fiscal, monetary and trade policies. Paul Collier (2007) also states that foreign aid affects positively only in the presence of political opportunity and on than point money to government can be useful. To put it differently, there has to be a threshold, when aid plays as a positive role. Perfectly, state needs "good governance" (Moyo 2009, 22-26), which means strong and credible institutions, transparent rule of law and economy free of rampant corruption. The right political conditions are preconditions of the positive impact of foreign aid. On the other hand, the number of poor countries with bad governance is a problem and aid's purpose is to help these states. On this behalf scholars assume that aid can help to escape bad governance by incentives (Collier 2007, 108-110; Klein, Harford 2005, 73-74). Paul Collier names it *policy conditionality* (108), though aid can be given only if state will implement reforms. However, referring to the history of foreign aid, this precondition did not help African states to escape bad governance (Moyo 2009, 16-19). This dilation, firstly, needs to take into account ex ante conditionality, and, secondly, it messes up accountability, because government will be responsible to donors, not population.

The other supporters of foreign aid claim that there are two types of foreign: grants and loans. Each of them affects differently. According to Klein and Harford (2005) grants facilitate the taxation effect, raise government consumption and encourage deficit financing. However, loans promote growth in a good institutional environment. In wide sense, grants associate with consumption and loans with investment. Looking at the market of aid there is not much difference between both

types, since inflow of foreign aid, whether it is grant or loan, is mostly "unchecked and unregulated" (Moyo 2009, 37) and loans are frequently forgiven (Moyo 2009, 8) to poor economies, which means that loans are equivalent to grants and it is irrelevant to make a difference between them. It just demonstrates the fact that both types of foreign aid do not have significant difference, if they affect in the same manner and distinguish by agendas, which are blurred. Consequently, in any case foreign aid is an external rent that fosters the emergence of a rentier state.

Aid curse has similar effects with resource curse. Foreign aid is to be external rent for government fostering to depend on it. According to the logic of this paper, not only natural resources can facilitate curse and the emergence of rentier states, but also other types of external rent have the same impact on economy, underlying that geostrategic importance can also favor countries to seek for external rent.

1.7 Geostrategic Curse

In order to understand how geostrategic importance impacts economic and political institutions, it is important to define the core terms: geostrategic importance and geostrategic curse:

- *Geostrategic importance* is a strategic importance of state's location for external benefactors that use their own resources to exploit geostrategic values. A country becomes geostrategically important, when external benefactors (in our case Russia and the US) start to use country's geographical location to achieve personal goals for military, economic and political reasons;
- *Geostrategic curse* is a curse that is derived from the use of geostrategic importance for external benefactors as a revenue gaining asset, which ends up with negative effects. The reason for that is the attraction of external rent that facilitates a rentier state behavior.

Figure 1 Causal Mechanism of Curse Theories

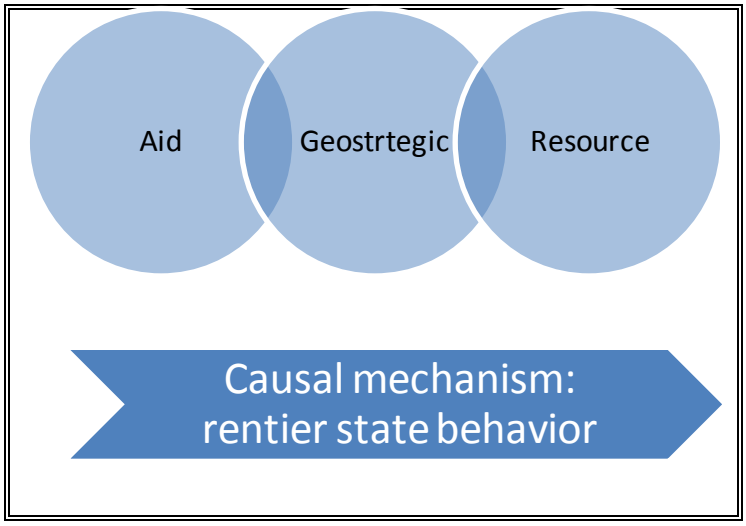


Figure 1 demonstrates how geostrategic curse relates to resource curse and aid curse. So, geostrategic curse can be understood within two theories. In resource curse, government gains revenue by selling natural resources, which revenue must be understood as a rent. In the framework of this theory, in geostrategic curse a state uses its geostrategic location as an asset, not receiving any expenses for exploiting it. In aid curse external actor gives free money under specified terms to a government. The essential part here is the involvement of an external actor that is either a state or a non-governmental organization like IMF. (Djankov, Montalvo, Reynal-Querol 2009) In the framework of this theory, in geostrategic curse an external actor is a benefactor that pays for the use of geostrategic location as a necessary and important product. As follows, by geostrategic curse this paper understands the use of geostrategic location as a natural asset, which can be evaluated as an important and necessary product for the external benefactors.

Moreover, both grand theories and geostrategic curse have one common causal mechanism – a rentier state behavior. This mechanism allows evaluating government as a dependant actor on external rent. Therefore, rentier economy leads advantageous

governments (Kyrgyz and Belarus) to use geostrategic location as a resource in order to get external rent from external benefactors.

Chapter II

In this chapter I am going to explain the methodological part of the research, case selection and conceptualization. As this chapter highlights the main methodological use and problems the researcher faces, it will refer to the literature, which helps to understand the use of specific methods, conceptualization of theory, and measurement of data.

2.1 Case Selection

In order to demonstrate an implementation of a geostrategic curse theory this work analyzes two cases, Kyrgyzstan and Belarus. To narrow down the scope of our research and explain the research subject, the selected cases present specific nature to explain the purpose of the work. Firstly, these cases are scarce to resources, which make them relevant to this study. Secondly, these cases, as a part of the post-Soviet states, are the vital object to analyze, because being non-resource abundant states they demonstrate a poor economic development. Thirdly, both Kyrgyzstan and Belarus failed the democratic consolidation in transition process, which makes them interesting to study geostrategic location's influence on political institutions.

Also this paper takes into account a rentier state concept. As geostrategic importance was taken as a source of external rent, Belarus and Kyrgyzstan fits the scope of this research. These cases are geostrategically important Russia and the US. Kyrgyzstan has played a vital strategic role for the US Armed Forces since December 2001. For Russia it is also important geostrategically. The presence of military base confirms this statement. Moreover, the fact that Kyrgyzstan receives a substantial amount of money from these states makes it a geostrategically important object for Russia and the US. As regards Belarus, it is vital for Russia in security and economic

reasons. The security concerns are shown by the presence of military base, while the economic importance is shown by the transition of Russia oil and gas pipelines through Belarus. Consequently, Kyrgyzstan and Belarus represent geostrategically important states for external benefactors. Moreover, both states have similar historical background, but different economic and political transformation period. Lastly, there is no ample quantity of studies on both states on their economic performances.

2.2 Methodology

This subsection is about the method and the way how the research will conduct the analysis. In general, to conduct a case study method on Belarus and Kyrgyzstan the research will use a content analysis, based on official statistics, historical information and academic articles. Yet another significant point in the methodology of this paper takes part the work of Daron Acemoglu and James Robinson (2009) *Why Nations Fail*. The way to explain and analyze deterioration of political and economic conditions of the cases, I broke the analytical chapter into four subsections: the Soviet background, the post-Soviet period, geostrategic importance and the effects of geostrategic curse. Initially, I focus on the Soviet historical background of the states. Acemoglu and Robinson in chapters 3 and 4 (70-123) explain how past shapes the present. Accordingly, the scholars show the historical examples how past institutions have a significant impact on late situation. In the nineteenth century the path toward industrialization in African, Eastern Europe and Asia was slowed because of the strong absolutist rule, which was a historical legacy. In Latin America the political and economic institutions were shaped by the Spanish colonialism. The same can be said about the Middle East, where institutions were formed by Ottoman colonialism. Both empires established *extractive institutions* in these areas. It means that a small group of people exploit the rest of the population, giving minimum rights to majority. In

economic sense it means that extractive institutions were directed to derive huge profits from economy, not giving back or investing any resource. The aim of this type of institutions is to devastate fully sources of income and, at the time of their depletion, to find other ones. In Latin America the scholars demonstrate a huge poverty rate. It is the result of established extractive institutions, which goal was to extract gold and exploit population. Middle East countries have similar situation. The ones without oil today have the income level similar to Latin American countries. Middle East countries, actually, benefited from the flow of technology from Europe, but the majority of people still live below the poverty rate. In terms of the mentioned, I am going to study the Soviet legacy of Belarus and Kyrgyzstan. A historical content is inseparable with a transit of political and economic institutions in the time of their independence. Under the Soviet Union both republics were the part of the system with extractive economic institutions. Hence, it is essential to depict the Soviet heritage that can affect the post-independent institutions. Therefore, this section is devoted to understand the nature of the present institutions in both countries. Moreover, the historical legacy helps us constrain the study in a way that different factors, besides the geostrategic importance, that affect economic conditions are to be in the framework of the study. Underlying this claim the different factors must not be excluded in this study, because it directs our attention toward the economic development, which is a complex system with many aspects affected by different factors.

In next section I will focus on the post-Soviet period of the states, highlighting the transition one. Acemoglu and Robinson in chapter 4 (96-123) also demonstrate how small differences or critical junctures change the political and economic situations. They give a great example of the bubonic plague, the Black Death, happened in 1346. Due to the severe perdition of the population in most of the world, the political and

economic situation started to reshape. In Western Europe *inclusive institutions* began to emerge. In other words, from that time many people were included in the governing process; the exploitation either minimized or disappeared totally. In the Eastern Europe the labor market size was small. Fewer labors meant higher wages under inclusive institutions. In the upshot the authorities of the Eastern Europe were on extractive institutions' side. There were greater incentives. The scholars call critical juncture "a double-edged sword" (101), which can facilitate a sharp turn in the life of a state. It can take two trajectories, either change political and economic institutions, or strengthen the already existing ones. The Second World War as a critical juncture helped South Korea, Taiwan and Japan to achieve huge economic growth, unlike the Soviet Union, which strengthened extractive institution. Acemoglu and Robinson in chapter 5 (124-151) also illustrate the growth under extractive institutions, and one of the examples was the Soviet Union during Stalin's authority. The scholars highlight that the nature of the growth under two types of institutions are different. Under extractive institutions the growth is sustainable and unstable. By the way it is rapid but short-living. The reason to that is easy extraction of income, which brings to the lack of innovations. So, with regard to the critical juncture examples, the Soviet breakdown is to be seen as one of them. In this section I am going to look at the transition period of Belarus and Kyrgyzstan and try to understand how the Soviet breakdown changed the institutions. In addition, the presence of extractive institutions in Belarus and Kyrgyzstan can bring to a rapid economic growth, which will fail in a certain time. It will be shown in chapter 3.

The next step is to demonstrate the presence of geostrategic importance for external benefactors – Russia and the US. If external benefactors are interested in country, especially in its geographic position, they will support the geostrategically important state with subsidies, loans, financial aid, grants and other types of external

rent. Additionally, their importance in country either reflects their military or political-economic strategic interests. In order to demonstrate it I am going to present factual data, highlighting benefactors' strategic involvement in the geostrategically important states – Belarus and Kyrgyzstan. Afterwards, based on the outcome, I will analyze how Belarus and Kyrgyzstan use their geostrategic importance to attract external benefactors, and whether they got involved in the geostrategic curse.

Afterwards, the aim is to show geostrategic importance as a source of external rent. Mainly, geostrategic importance can play the role of catalyst to make a rentier state. If the state is trapped in geostrategic curse, then it will face aid and resource curses effects. The effects also differ by the type of external rent, whether it is subsidize products or financial aid. Each of them differs by the effects on the sectoral economy. Moreover, their amount also influences on the level of dependence on external rent, because every country gets external rent, but not all of them are dependent on it. The excessive amount of rent makes a state rentier, and geostrategic importance for external benefactors is one of its sources. The effects of rentier economy are to be shown by macroeconomic factors, which are affected **directly** by external rent. I will look at economic sectors (agriculture, industrial, service sectors), notably, its reorganization. In the first scenario, if state gets a significant amount of rent, I assume, tradable economic sector will shrink and non-tradable will widen. State does not invest rent into economy, hence, allocating rent among population to confirm that it fulfills its governmental obligations. However, if state gets rent and there is no considerable reorganization of economic sectors, then the second scenario takes place. State invests external rent into tradable sector to improve its economic condition and competitiveness of tradable sector on the world market (see the Norwegian case).

State, relying on external rent, faces also **indirect effects** on economy through socio-political channels. The indirect aspects are political and social institutions that affect economic condition of a state. Here will be evaluated the unemployment rate, coercive apparatus, corruption, human capital, and the level of taxation. In order to explain the influence of these institutions on economic condition there will be used mechanisms as the voracity, repression, and taxation effects. The *voracity effect* is seen under the circumstances when expenditures begin to grow faster, and government uses rents to realize ambitious investment projects that do not give any positive returns. Under the *repression effect* government increases the size of coercive apparatus (police, army) of a state, thus giving additional jobs. The *taxation effect* reflects government's opportunity to buy people's loyalty both through low taxation and social benefits. In exchange government lacks accountability and responsibility due to the absence of taxes. Finally, it gives birth to corruption, which, from its side, erodes investment to human capital and innovative projects.

The main purpose to look at these indicators is to *see the allocation of revenue* and its effects on economic conditions by weakening institutions. I assume that if government uses external rent in the pattern of the resource curse, then its tradable sectors (agriculture and industry) are shrinking, and non-tradable sector (service) is increasing in order to avoid high level of unemployment. In addition, it means that manufactured products become less competitive, since no money flows into the tradable sector. Sometimes states use the policy of protectionism, helping own industries by giving large credits or by restricting imports. It also helps to escape high level of unemployment, but reduces competition in market; hence, uncompetitive state industries stay alive, eliminating the chance of competition. Besides, tt leads to finance coercive apparatus (police, army).

After evaluating separately both cases the last section will be devoted to compare the outcomes on both cases and highlight the differences and similarities between them. This analysis will help to understand and show the real effect of rent, gained by geostrategic importance, on economic conditions. At this point the geostrategic curse, as a supplement to the resource curse and the aid curse, will be implemented on the selected cases to show the real effect and its applicability to the aforementioned cases.

2.3 Data

To fulfill the analytical part, this research relies on economic data on both states. The data to be used is economic indicators, like GDP growth, export-import revenue, value added of agriculture, industry, services, and other macroeconomic indicators. To study Belarus the research uses the official statistics **Belstat**, which is referred to the National Statistical Committee of the Republic of Belarus. This database contains official statistics from 1995-2013 on economic, demographic, social and ecological information, based on collection and processing of primary data. The provision states that the committee has the duty to pursue the governmental policy in the sphere of official statistics, to make regulatory and administrative work and to coordinate activities of other agencies in this sphere. The fact that this committee pursues governmental policy distorts data reliability, not presenting accurate information. Therefore, the other datasets will be used too.

The official data on Kyrgyzstan is presented by the **National Statistical Committee** of the Republic of Kyrgyzstan (NSC). This database contains official statistical, which is aggregated documentary information on economic, demographic, social and ecological aspects of Kyrgyzstan from 1991-2014. Mainly, the committee has the same tasks as the National Statistical Committee of the Republic of Belarus.

In order not to rely only on official statistics, which can be adjusted, therefore, is not reliable, the research also uses other online datasets. They are Trading Economics, Observatory of Economic Complexity and Corruption Perceptions Index. For some economic indicators the research uses **Trading Economy**, which contains accurate information for 196 countries, presenting 300,000 financial and economic indicators. Its data is based on official sources. This project was found in 2008 by Anna Fedec and Antonio Sousa. Anna Fedec holds MA in Economics from the City University of New York and MA in International Relations from the Cracow University of Economics. Antonio Sousa holds MBA from the City University of New York. Sousa was a chief strategist for one of the biggest foreign exchange trading firms. He is also an expert in performing global economic researches.

Observatory of Economic Complexity (OEC) is a database that helps users to build a narrative about import-export trade of countries and their products. This database will help to observe international trading of Belarus and Kyrgyzstan to see their trading partners and dependence on particular products. The founder of this database is Alexander Simoes, the MIT software programmer. It is supported by the MIT Media Lab consortia. This is a user-friendly dataset that helps to easily track the import-export trade of particular states from 1995 till present. Data refers to the Harmonized System Codes (HS), which is an international product nomenclature developed by World Customs Organization. It contains about 5000 commodity groups and classifies over 98% of the merchandize in international trade. OEC uses HS data from the United Nations Statistical Division (COMRADE database). The source of database makes it reliable.

Finally, the research uses the **Corruption Perceptions Index** (CPI) developed by Transparency International NGO to analyze the level of corruption in Belarus and

Kyrgyzstan. The CPI defines corruption as the abuse of public position for private profit. This index includes only the corrupt activities that came to light through investigations, prosecutions or individual testimonies to Transparency International. Therefore, this index does not tell the full story of corruption in a country, but only comprises the reported bribes, brought prosecutions and number of court cases directly linked to corruption. The CPI reflects corruption of a country's public sector, scoring from 10 (very clean) to 0 (highly corrupt). Scores represent the aggregation of surveys and assessments, collected by 13 reputable institutions[3]. In order a country to be in the list of CPI, it has to be at least in 3 data sources. The CPI is a good index to demonstrate an overall picture of a country.

[3] To see 13 data sources used to construct CPI, follow the link: http://www.transparency.org/files/content/pressrelease/2013_CPISourceDescription_EN.pdf

Chapter III

This chapter is an analytical approach to understand how the cases Belarus and Kyrgyzstan use their geostrategic importance for external benefactors to receive external rent. Here the research will explain the political and economic stance of both states taking into account their Soviet legacy and early reforms established. Afterwards, there will be shown their dependence on external rent through economic data and fall into the curse. Lastly, I will conduct the comparative analysis of these two states to draw the differences and conclude the research.

3.1 Belarus

3.1.1 The Soviet Heritage

During the Soviet era the Belarusian SSR (BSSR) underwent both positive and negative changes. At the beginning there were established the first sizable manufacturing plants, but the high competitiveness of the Ukrainian and Russian industries dwarfed Belarusian industrialization. In 1940 only 1/5 of all population lived in towns. During World War II most part of Belarus was destroyed; 80% of the capital Minsk was ruined; by the end of the war out of 9.2 million people 2.9 million died; 75% of inhabited localities were demolished. After the war the BSSR was rebuilt from scratch and became one of the major manufacturing regions, producing goods of light and heavy industries. (Ioffe 2004, 85-89; Wilson 2011, 237)

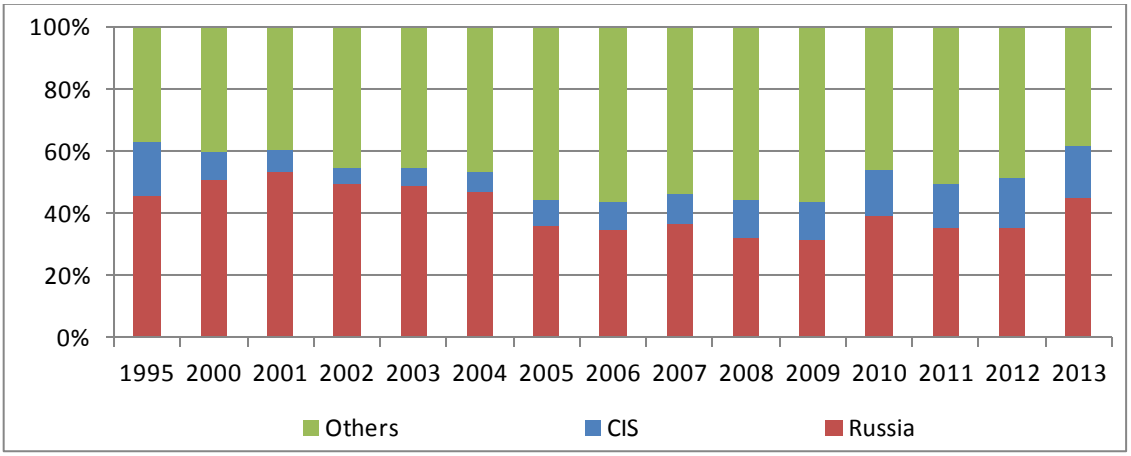
By that time the BSSR was also geopolitically important for the country. It was called "the Western Gate of the Soviet Union", because its geographical location became a key for the energy transit. 37% of oil annually was exported to the Soviet allies through the Druzhba (Friendship) pipeline. Moreover, back at that time two refineries were built in the cities Mazyr and Novapolatsk. (Wilson 2011, 238)

Consequently, Belarus was not only high-tech industrialized region, but also an important asset for the country's exportation of oil. Having no natural resources on its own, the BSSR was integrated to the Soviet economy because its industrial sector was highly dependent on the primary commodity supply, which made nowadays Belarusian industry completely vulnerable to prices of mineral products and metals.

3.1.2 Post-Soviet Belarus

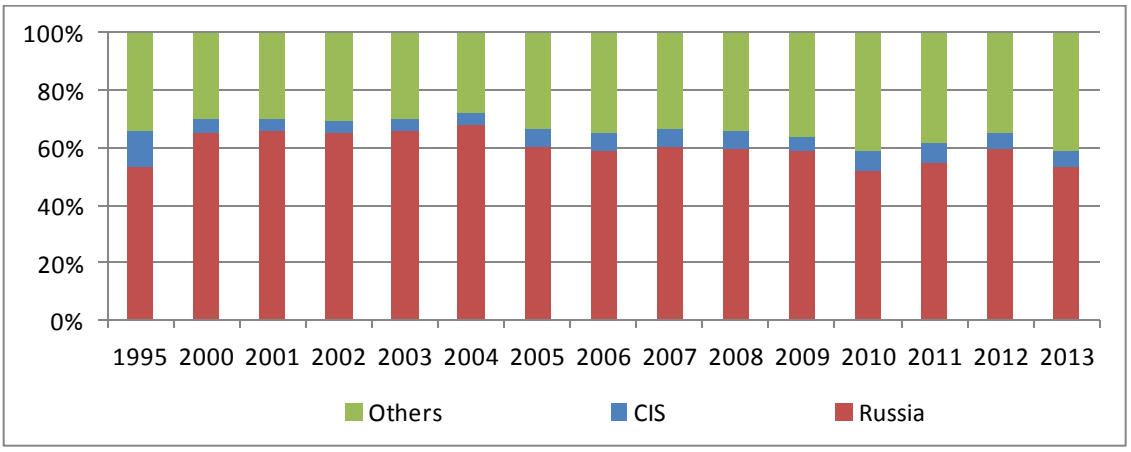
After the Soviet collapse Belarus became independent on August 25th 1991. Mostly all the post-Soviet republics underwent economic and political transition. However, Belarus had never leaned toward democracy and the process of economic transition clearly failed. Hence, Belarus's opposition is weak and the Belarusian elite came from the same groups as during the Soviet times. Since 1997 in order to be the political elite, there has to be loyalty toward regime and country's leader Lukashenka. Regime strengthened the administrative control. Being least transformed economy, we observe predominance of the state sector, which leads toward protectionism, difficulty for the development of private firms, direct state intervention and soft budget constraints. (Korosteleva, Lawson, Marsh 2003; Lawson 2003) The government stayed in socialist prism, continuing to subsidize transport and utilities and giving free health and education (Ioffe 2004, 90-91). This meant that the Belarus economy did not make any fundamental changes and followed almost the old Soviet system.

Figure 2 Belarusian Value of Export Trade in percentage



Source: Based on Belstat

Figure 3 Belarusian Value of Import Trade in percentage



Source: Based on Belstat

Since the BSSR was highly integrated in the Soviet economy, the post-independent Belarus's economic situation did not change significantly. In the Soviet times most of the industrial, manufacturing and agricultural products were traded within the Soviet Union, notably, among fifteen Soviet republics. Today's condition seems quite the same. Looking at the figure 2 and 3 we see that approximately half of the Belarusian external trade is carried out with Commonwealth of Independent States (CIS), including Russia. Moreover, the biggest actor in the Belarusian external trade is Russia, and its export trading value has never fallen below 50% (see table 3). According to this data we see that the Soviet economic legacy influenced on the post-independent

Belarus significantly, because most of the external import-export trading is carried out within the ex-Soviet territory, where Russia is the number one partner.

Failing to implement the transition, i.e. make macro-economic stabilization, private sector development, liberalization of trade and development of financial institutions, Belarus lost the ability to attract FDI. In the CIS Belarus has the lowest level of FDI. De facto being a nondemocratic state Belarus got into foreign-policy isolation. Western states have no willing to have strong relations with Belarus. In addition, the failure to make economic reforms preserved low-efficient state sector that is able to function only with presence of cheap energy supplies. (Korosteleva, Lawson, Marsh 2003; Dashkevich 2005) Consequently, unreformed economy along with the Soviet legacy made the Belarusian economy dependent on external rent. And one of the possible ways to make economy sustainable is to be attractive for external actors. Now Russia is the main benefactor and engine of the Belarusian economy.

3.1.3 Geostrategic Importance

Belarus was not able to attract western investment; therefore, the accent fell upon eastern partnership, especially Russia. Due to the favorable geographical position Belarus plays an important strategic role for Russia. Russia as an external benefactor has many reasons to be interested in Belarus. One of the most obvious reasons is the transit of natural gas into Europe. Since oil and gas are Russia's primary export commodities, it seeks the easiest and benevolent way to sell its oil and gas. Being as a transit country it is a strong trump card for Belarus. (Nesvetailova 2003; Ioffe 2004; Korosteleva, Lawson, Marsh 2003) Moreover, import and export duties through the border were significantly lowered, including primary commodities (Martinsen 2002, 16-18). This pipeline is the main route of gas transportation to Western Europe through Belarus and Poland. For the last few years approximately 44.3 billion m^3 gas per year

were transported to Lithuania, Poland, and Kaliningrad through Belarus, and it accounted for 23% of Russia's total gas export (Wierzbowska-Miazga 2013). Belarus, on the other hand, uses its territory as a transit for the transportation of Russian natural gas to European market and simultaneously uses gas for personal needs. Moreover, gas production cost, reaching Belarusian border, significantly cheaper. For instance, the final values of gas for Belarus will be always lower as regards Germany. In addition, Belarus every year Belarus payment rent for transit service and rent for the 575 km. passing pipeline. (Dashkevich 2005) It accumulates not an enormous amount of money, but is an example of external rent.

The other interest of Russia in Belarus is related to defense and security importance. Belarus for Russia is a military outpost that plays a security role for Russian western borders. This military integration process has started since the 1990s. In 1999 there was ratified the Union Treaty between Belarus and Russia. For now the integration process was so deepened that de fact the Belarusian armed forces are part of the Russian army. The most integrated section of army is the air defense. Russia has equipped Belarus with up-to-date air defense system. In 2012 Belarus ratified an agreement on joint air defense that gives Russia total control over the Belarusian air force. So, it is almost impossible for Belarus to pursue independent operations. The Belarusian forces are equipped with S-300 PS, S-400 and TOR-M2 missile systems. In addition, Belarus hosting early-warning missile attack radio station in Baranovichi and low-frequency naval radio station in Vileyka used for submarine tracking (Martinsen 2002; Wierzbowska-Miazga 2013). Since Latvia declined Russia to continue use early-warning radio station in Skrunda, Russia lost part of its radar network with western borders. Therefore, Russia relocated it in Baranovichi, Belarus, resuming the network system. The main purpose of strengthening military outpost in Belarus for security and

defense of the Russian western border is the direct response toward NATO enlargement (Nesvetailova 2003; Wierzbowska-Miazga 2013, Martinsen 2002), which placed ballistic missile defense systems in Eastern Europe (Poland, Czech Republic). The fact that Russia uses military installation on the territory of Belarus free of charge is the advantage for Belarus to be forgiven for Russian subsidies provide for Belarus in various ways. Moreover, the presence of Russian military facilities in Belarus is the indemnity for oil and gas loans (Nesvetailova 2003; Martinsen 2002). Consequently, both sides face benefits from this integration. And Belarus uses its geographical location to attract Russian subsidies.

From the other side it is important to stress how Belarus benefits from Russian-Belarusian relations. Using its geostrategic importance receives a lot of money in various ways for the support of economy. As it was already aforementioned Belarusian industry is highly dependent on Russian market. Since Belarusian products are not competitive on the Western market, most of the exportation goes to CIS, especially Russia. In 2010 77% of all consumer goods (mostly tractors and trucks) and some agricultural products went to Russia. And very importantly, most of the production depends on cheap Russian energy that Belarus gets for $22-25 per 1,000 m^3 in 2002, then $46.68 in 2005-6, and slightly below $100 after 2006. But it is not comparable with the world prices and relatively slow comparing to Ukraine (which paid $360 after 2006). Moreover, since Belarus has two oil refineries, all the import of crude oil comes from Russia on a very cheap price, making Belarusian export of refined product competitive, so it undercuts others on world market. Oil revenue peaked at $5.4 billion in 2006, and became the main source of cross-subsidization for the rest of the economy. (Wilson 2011, 241-245) Mostly, the industrial sector gets the biggest pile of subsidization, since this sector is the biggest employer in Belarusian economy, which

accounts 25.4% employment in 2013 (Belstat). Belarus uses the advantage by buying cheap energy supplies, making barter deals, whereas manufacturing and agricultural products go to Russia in exchange with energy suppliers (Wilson 2011; Nesvetailova 2003). Moreover, facilitating political and military integration Russia often writes off Belarusian debts. As one of the example, in 1996 Russia wrote off $1.3 billion of energy imports (Wilson 2011, 241).

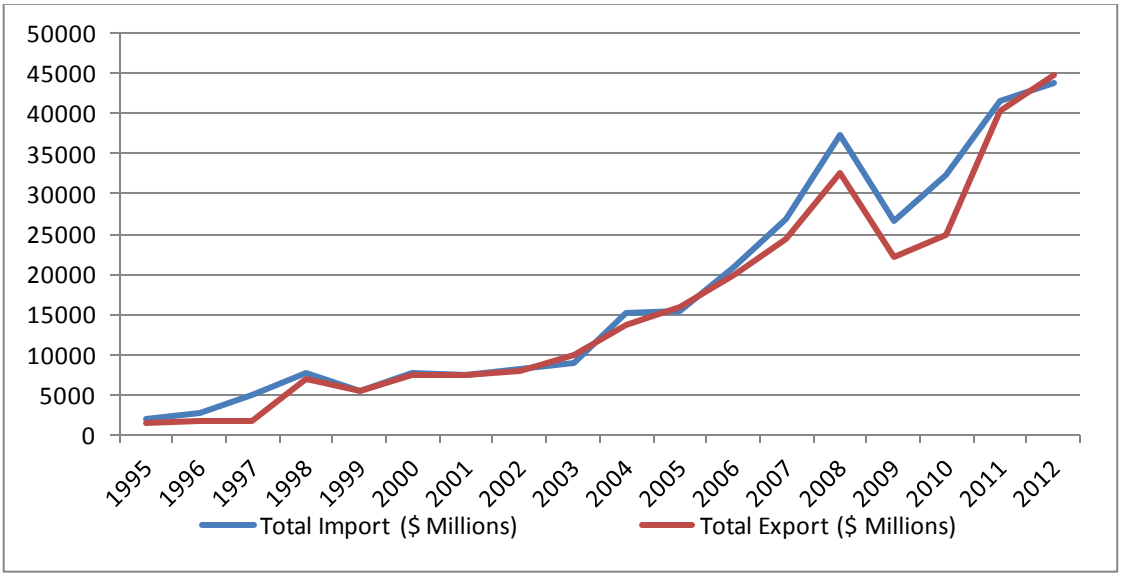
Using its geostrategic importance to attract Russian interest made Belarus extremely dependent on Russian economy. Belarus got into the geostrategic trap, stressing its economy on external rents – cheap oil and gas, subsidies for political loyalty and for the use of Belarusian territory in military purposes. Seeking external rents from Russia, Belarus became a rentier state. On the other hand Russia has an extreme ascendancy on Belarus. So, any attempt of Belarusian government to find alternative market for energy supply purchases will run into Russia's political leverage. Any attempt to start discussion about construction of alternative pipelines through Belarus will be considered in Russia as a threat to its economic interests. Once it happened in the 1990s during the discussion of the Baltic-Black Sea manifold project, which was canceled (Dashkevich 2005) The other example is the shutdown of Ford-Belarus venture in 1997. Looking at these examples we can conclude that Russia has a great ascendancy on Belarus. And the last is heavily dependent on the Russian economy, which supplies 100% of oil and gas, 80% of energy resources and coal, and 86% of crude metals. (Nesvetailova 2003)

3.1.4 Geostrategic Curse

The significant dependence on Russia leaded Belarus toward geostrategic curse. To use its advantageous geographical position in one-way perspective made Belarusian economy highly vulnerable on Russian economic policies. Further integration will only

deteriorate Belarus's condition. From one side we can observe that Belarus shows a good economic performance. During 2001-08 Belarus's GDP grew by 8.3% annually (World Bank, 2012). The total export of products from 1995-2012 grew to 31.6 times (OEC), which is a good indicator. But making a more rigorous analysis, the situation seems different.

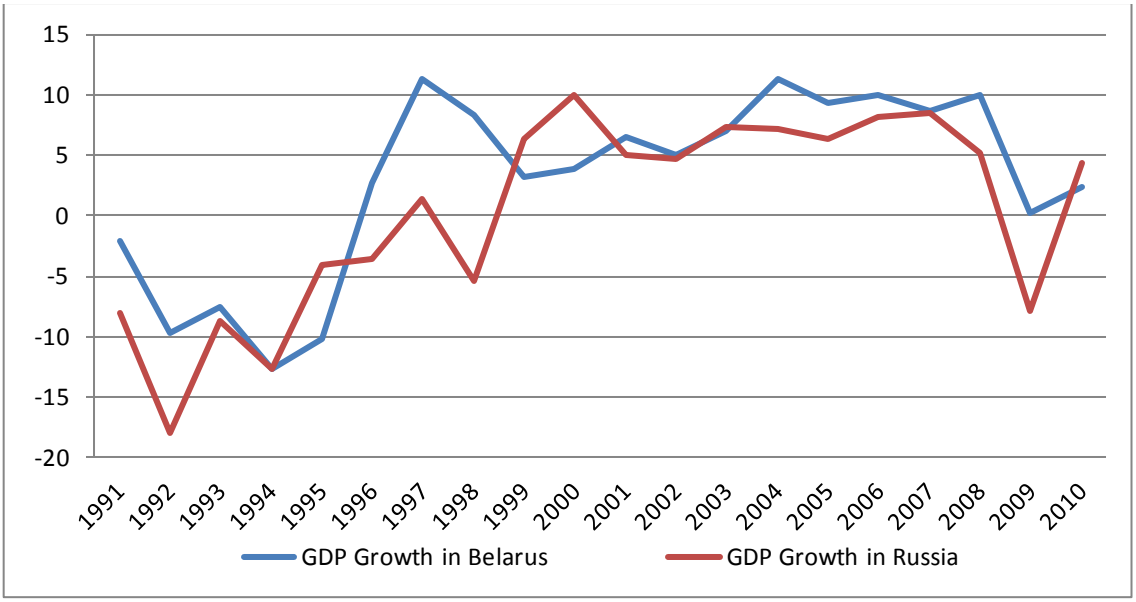
Figure 4 Belarusian Total Import and Export



Source: Based on OEC

In figure 4 we see that Belarusian import exceeds export. In 2010 the Russian share of export to Belarus accounted 40%, while the Belarusian share of export to Russia – 4%. In 2010 Belarus's current account balance was -7 billion US dollars, which is -14% of the GDP (see table 4), and it had started to rise significantly since 2007.

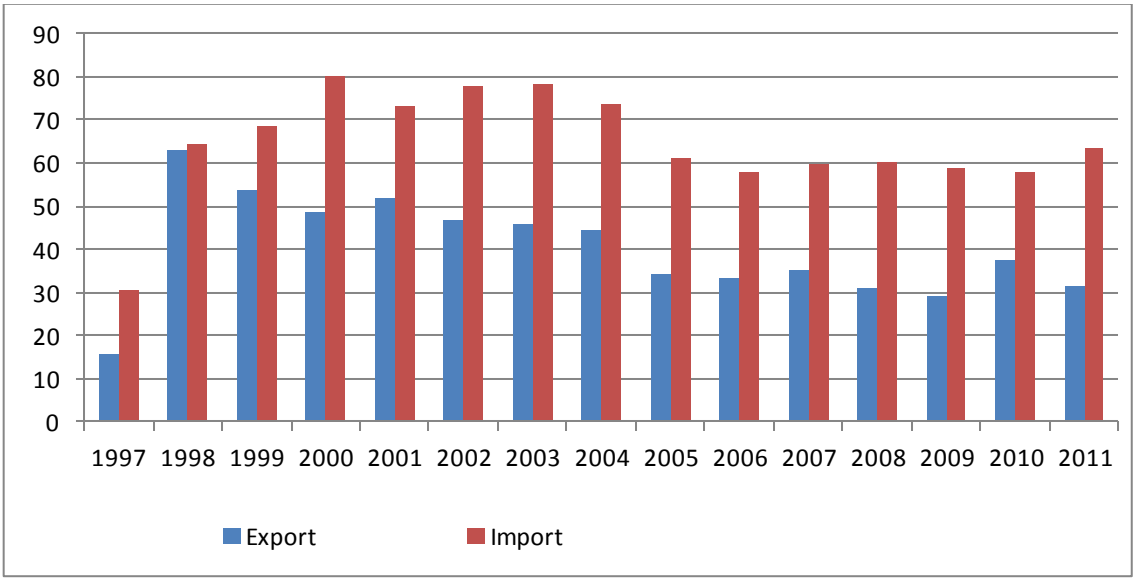
Figure 5 Growth in Belarus and Russia



Source: Based on Belstat, Rosstat

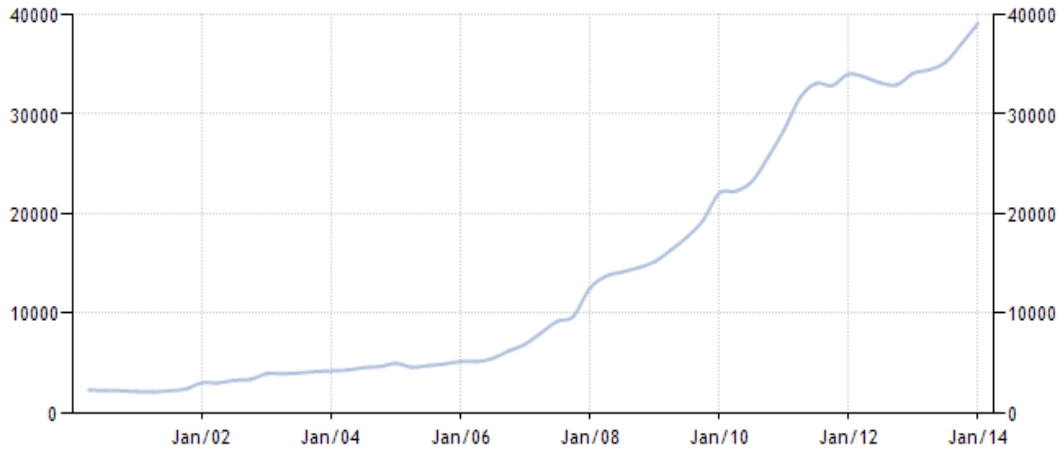
In figure 5 we observe that after 2000 Belarus's and Russia's growth has quite similar trajectory. Especially in 2009 we see that both states fall by the GDP growth. In the same year Belarusian export growth fell dramatically up to -35% (World Bank, 2012). Additionally, export to Russia accounted by 29.19% (see table 5), which never fell this dramatically since 1997.

Figure 6 Belarusian Import and Export with Russia (in percentage)



Source: Based on OEC

Figure 7 Belarus External Debt



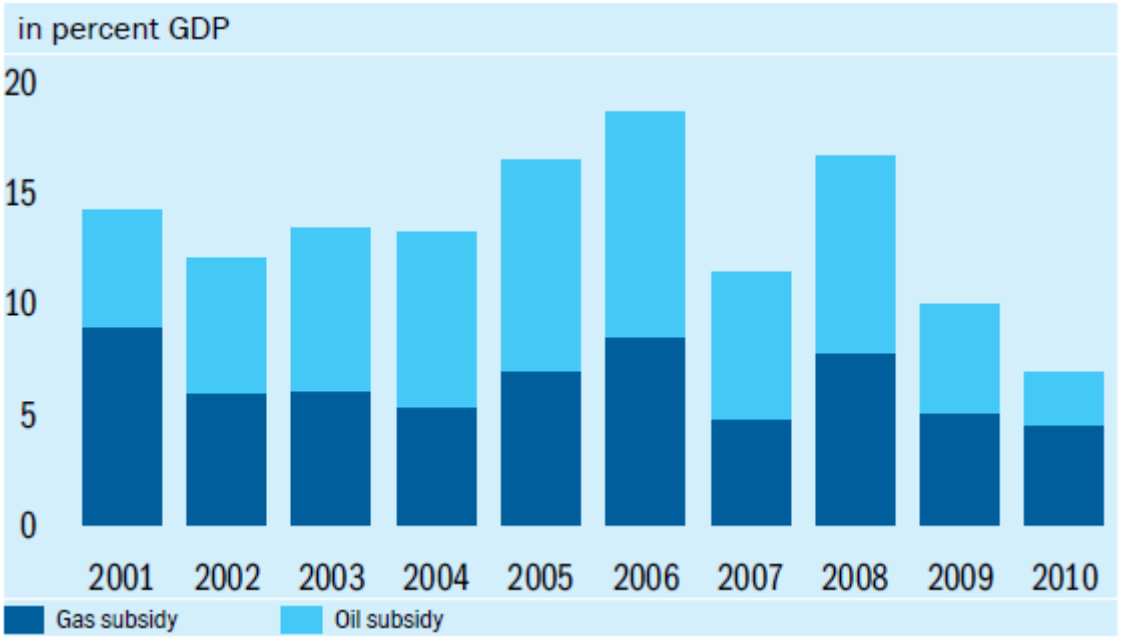
Source: Trading Economics based on National Bank of the Republic of Belarus

Figure 6 shows that besides the drop of Belarusian export Russian import never fell below 50%, which means that Russia was always a predominant import partner for Belarus. After 2005 more than a half of all import from Russia accounted for mineral resources (see table 6). The volume of oil product exports rose from 7.8 in 2000 to 17.5 million tons in 2012 (Belstat).The effect of such dependence played its negative role in the global economic crisis in 2008. The declining of profits in the energy sector due to the collapse of oil and gas prices and the fall of demand in Russian market for Belarusian export led to unexpected deterioration in the balance of payment. Due to the decline of profits in refinery industry, energy sector was hit severely; the collapse of Russian demand in Belarusian machines and transportation products resulted by 80% fall of export. No one was going to buy them due to their low competitiveness in the world market. For instance, the share of export of mineral resources reached 70%, while machines and transportation products – 4.9% (World Bank 2012). The booming construction sector was also hit severely (Wilson 2011, 249-250). Due to the deep relations with Russia the trading economy faced serious deficit by 2007-08, the debt has an inverse correlation with the trade. Comparing figures 6 and 7, we observe a decline in export and a significant rise in external debt. The gross external debt rose from $4.2

in 2003 to $12.5 billion in 2007 and reached $14.8 billion by the end of 2008. Now it reached $39 billion; it rose almost up to 60% since 2008.

The integration with Russia brought to the dependence on oil and gas, because in Belarus power plants and most of the industries are working on natural resources. At this point the use of geostrategic position as a factor to attract Russian subsidies resulted in the dependence on natural resources, especially gas and oil..

Figure 8 Russian Energy Subsidies



Source: World Bank

Looking at figure 8, we see that Russia substantially subsidized Belarus with oil and gas. Besides that in 2011 Russia made a -40% discount for all raw materials, and in 2012 Belarus earned $2.5 billion by exporting cheap Russian oil (Wierzbowska-Miazga 2013, 7). A significant portion of subsidized natural resources is used for domestic purposes. For instance, in 2009 6.3 out of 21.5 million tons of subsidized crude oil was used for domestic purposes. Therefore, the increase of gas prices can lead to stagnation. Such dependence demonstrates inability to make independent decisions.

In 2009 there was diplomatic conflict between Russia and Belarus, where Russia was accused for offering $500 million loan in order to recognize the independence of

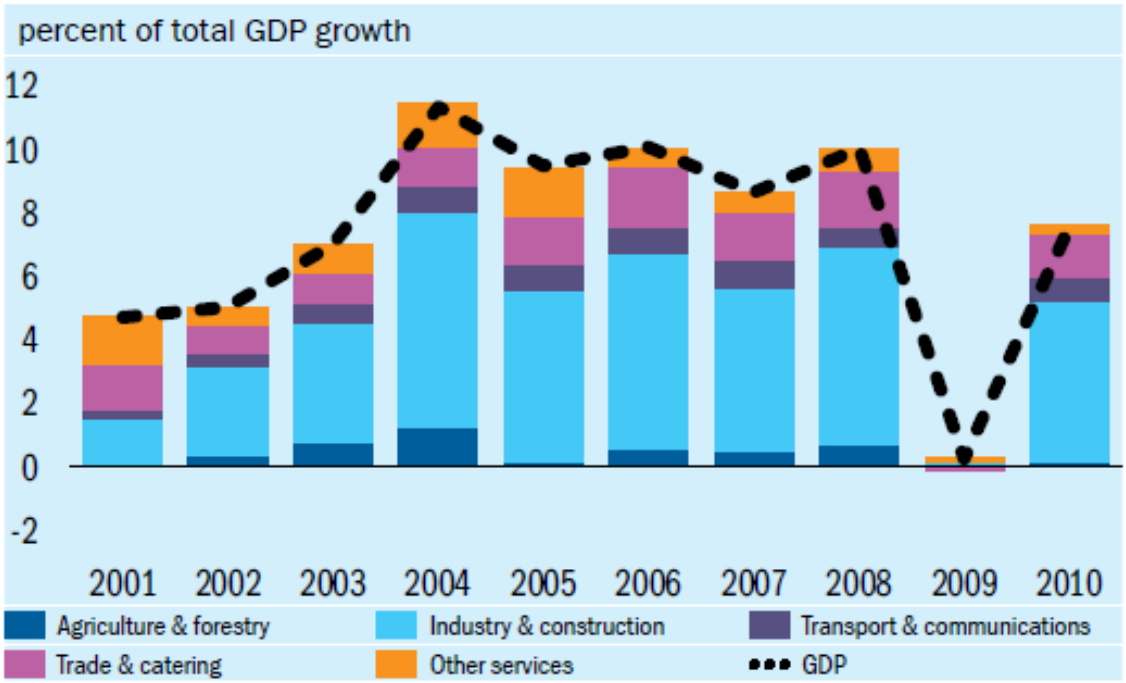
Abkhazia and South Ossetia. This fact demonstrates that Belarus is a puppet of Russia. In order to escape the total dependence on Russia and its oil and gas subsidies, Belarus started to seek for alternative sources of external rent. In 2010 Belarus cut down the oil import from Russia (see figure 8). This fact means that this country is a rentier state. In the same year China agreed to give credit worth of $5.7 billion from Import-Export Bank to finance investment project with Chinese companies, and $8.3 billion loan to the Belarusian Ministry of Finance. Also China and Belarus made $3.5 billion contracts in energy, construction, transport and the Belarusian petrochemical sector. In the same year Belarus made a deal with Venezuela. It consists in supplying Belarus with 30 million tons of oil over a three-year period. The deal was worth $19.4 billion. (Wilson 2011, 252) It was an ostentatious gesture to Russia that Belarus had alternative options. A situation demonstrates Belarusian dependence on natural resources. This condition helps Russia to manipulate Belarus.

Belarusian economic vulnerability on natural resource price leads to the reorganization of domestic sectors. Firstly, high gas price results in curtailment of utility subsidies. Secondly, industry cannot undertake the burden of high gas price, therefore, leading toward increase of energy tariffs for population. Thirdly, in utility expenditure economic activity the rise of gas price to a certain level causes increase of share of similar expenditures up to 15-16%, and utility expenditures up to 20-22%. Notably, more than a half of population, especially pensioners, will gain status of low-incomers. (Dashkevich 2005, 53-56) Therefore, even if Belarus replaced Russian oil by Venezuelan, the situation would not work well for it. At first, Venezuelan oil is almost twice as expensive as Russian, counting $656 to $398 per ton (Wierzbowska-Miazga 2013, 19). In addition, there was a drop of oil export by half, petroleum products by -40% and the output of Belarusian industry fell by 36% (World Bank 2012).

Consequently, Belarus could not turn its back to Russia. In order to solve the problem in 2011 Russia gave $4 billion stabilization loan. On the other hand Russia used the Belarusian dependence on its natural resources for its own profit. As a result, Belarus sold 100% share of Beltransgaz to Gazprom and put up 35% of Belarusian fertilizer company Belaruskali (Woehrel 2013).

This entire situation proves that Belarus, attracting Russia with its geographical position, got into geostrategic curse. At first, it is important to look at the economic sectors. For the last decade the biggest pile of contribution to the GDP was made by the industry and construction (figure 9).

Figure 9 Economic Sectors' Contribution to the Growth

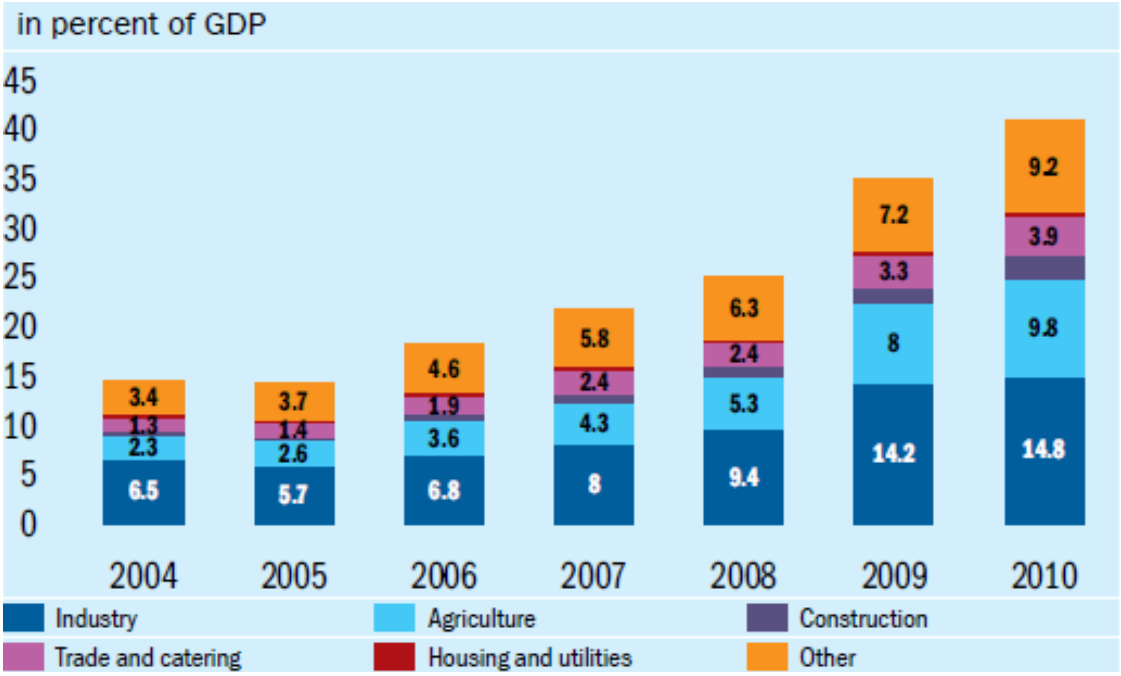


Source: World Bank

The industrial sector comprises mining, manufacturing, construction, electricity, water oil and gas, meaning that a significant industrial contribution to GDP growth is the result of the mineral resource production. The rest industrial sector profits from oil and gas. Figure 10 confirms this assumption, because the biggest share of credit lies upon industry and agriculture. The state supports its industry and manufacturing by

giving substantial amount of subsidies, meaning that it maintains the politics of protectionism. Keep doing so does not increase the competitiveness of the industry products (except cheap petroleum products).

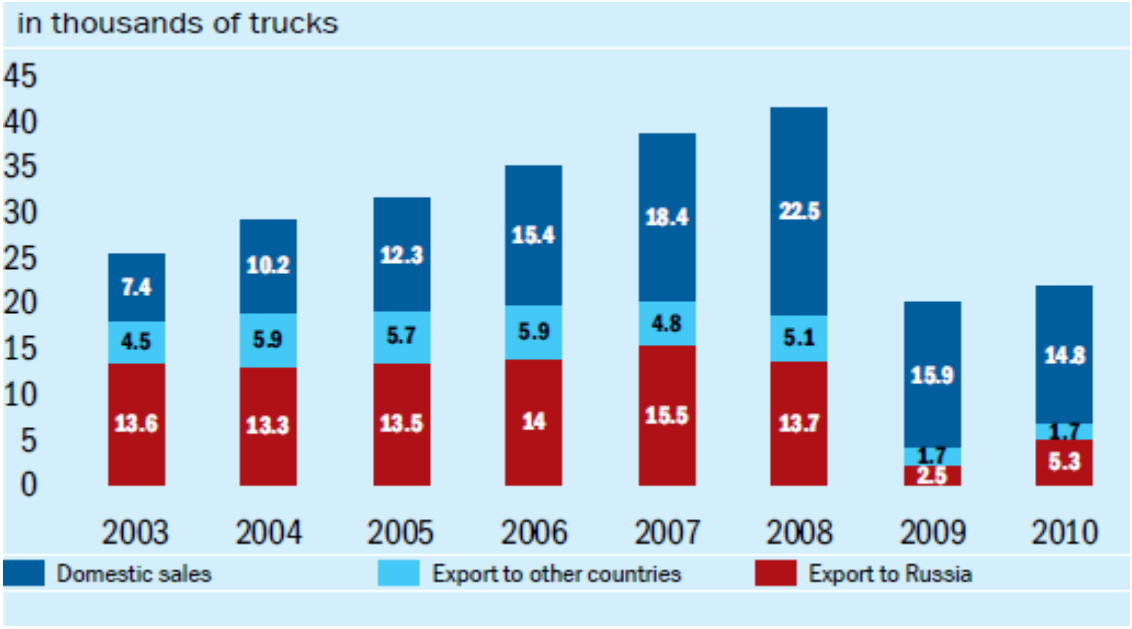
Figure 10 Credit to Sectors of the Economy



Source: World Bank based on Belstat

Looking at figure 11, it is obvious that the biggest customer of transportation and machinery products, excluding domestic sales, is Russia,. In 2009 and 2010 Russia decreased the purchase of trucks, undermining the industrial sector. In same years the amount of credits to industry reached 14.2% and 14.8% of GDP, which is a huge portion out of all sectoral economy.

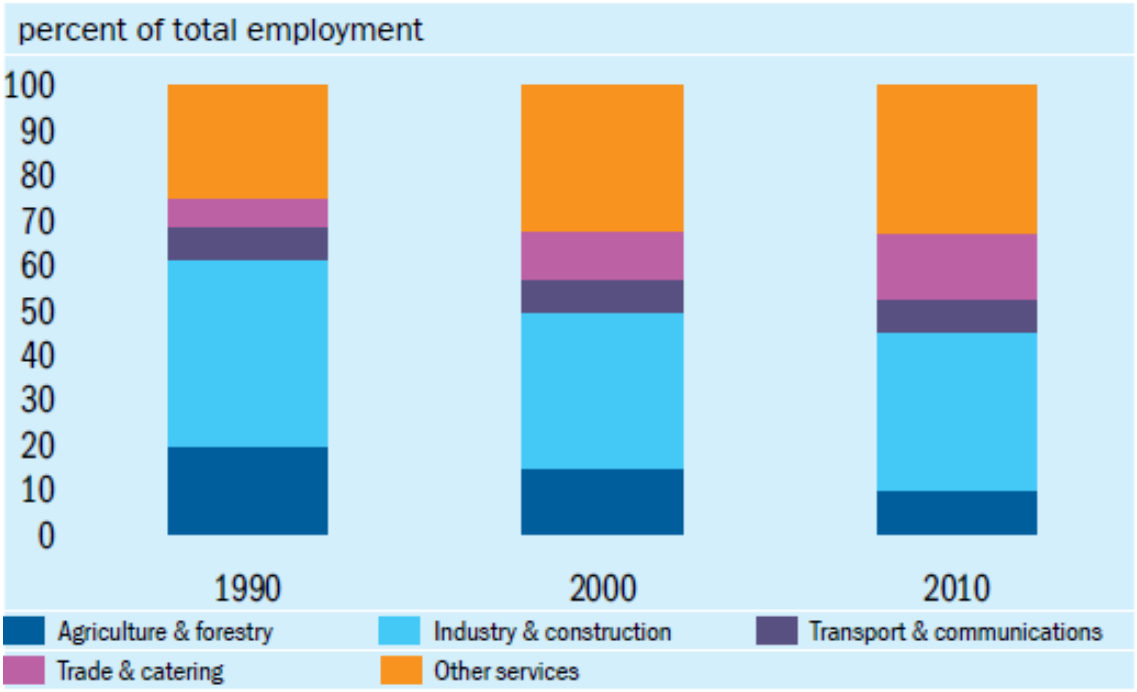
Figure 11 Sales of Trucks (including tractors trailers)



Source: World Bank estimates based on Belstat

It means that the state, protecting its assets, tries to protect its labor-market. In figure 12 we observe that the biggest employer is industry and construction. Comparing contribution of service sector in 2009-10 to industry, trade and catering, transport and communication, it is considerably small. However, the amount of credit it received is huge – 7.2% and 9.2% of GDP (figures 9 and 10). However, the total percentage of employment in service sector has risen since 1990. In general, agriculture and industry labor-market is shrinking. This looks like a Dutch disease, where the government in order to preserve the labor-market, increases subsidies to the sectors of economy that are vital employers. And we observe that the labor-market of industry and agriculture is shrinking, while the service sector, including trade and catering, is widening. This is a typical Dutch disease pattern, where huge investments go into the booming sector, which is an oil refinery sector. Therefore, we observe huge credits to industry, but the decrease of labor-market in it. So, the increase of labor-market in service sector (figure 12) and protectionism of industry and agriculture (figure 10) are made to avoid high level of unemployment.

Figure 12 Sectoral Employment

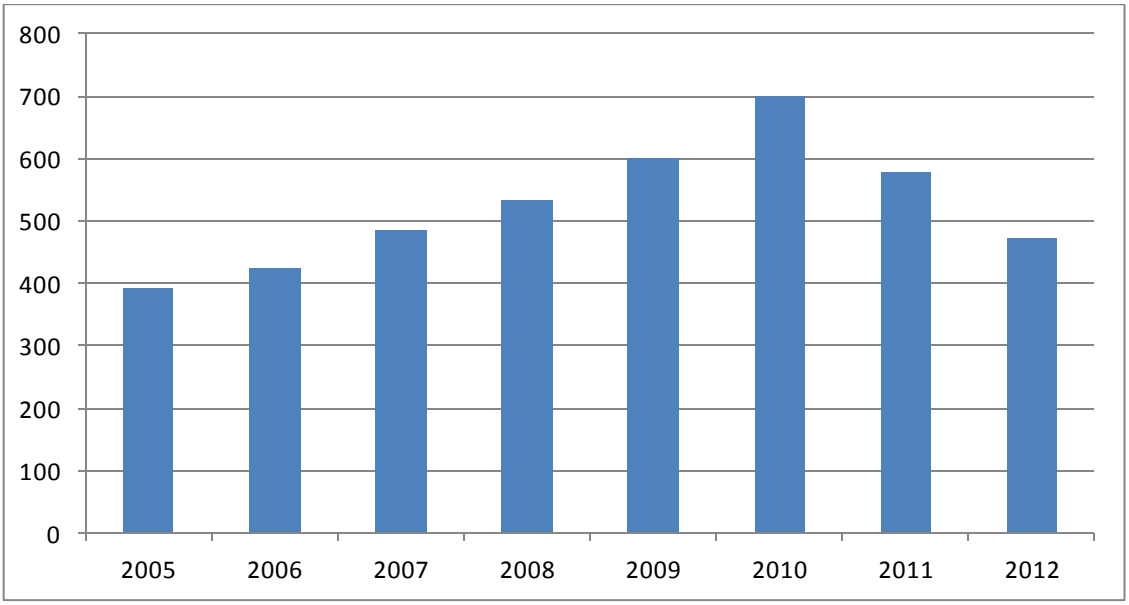


Source: World Bank based on Belstat

Besides the sectoral economic reorganization, Belarusian economy suffers from indirect effects of external rents. Firstly, Belarus faces the voracity effect, which is shown by implementation of ambitious project with the flow of extra-money from oil and gas industry. One of the recent examples is the Hockey World Championship in 2014, held in Belarus. The state renovated and built completely new sport centers, which cpsted Belarus a big price. In 2012 Belarus got a $10 billion loan from Russia to realize a white elephant project – a nuclear power plant construction (Wierzbowska-Miazga 2013, 8). Moreover, in order not to show to the population economic stagnation in 2009 and 2010, low export of transportation and machinery products, the government, while increasing subsidies to construction sector (figure 10), commissioned 600-700 m^2 residual houses (figure 13). Such projects demonstrate that the government fulfills its obligations. Additionally, it distracts civic attention from economic stagnation, showing artificial economic growth.

Secondly, Belarus faces the repression effect. Taking into account that the quantity of unemployed was always going down, reaching by now 20.9 thousand (Belstat), Belarus either goes through the repression effect or distorts statistical data (Woehrel 2013). From one side the protectionism of agriculture and industry allows to hire employees at the expense of the government. From the other side the repression effect takes place. According to the news agency EUROBELARUS, by 2014 Belarus is leading in the quantity of law-enforcement officers in the world. It accounts 1442 officers per 100 thousand people. In the Soviet Union there were 214 officers per 100 thousand people.

Figure 13 Commissioning of residual units per 1000 people (m2)



Source: Based on Belstat

UN recommends 222 officers per 100 thousand people. This fact corroborates the presence of repression effect. Therefore, the government uses external rents to increase size and finance the coercive apparatus of state, thus giving additional jobs.

The taxation effect goes along with the repression effect. It gives the government opportunity to purchase loyalty of the population by social payments, benefits and low tax rates. In Belarus during economic fall in 2009 the personal income tax, imposing on

different sources of income like labor, pensions, interest and dividends, dropped from 30% to 12%. Moreover, the volume of paid services to population rose gradually every year (see table 7). The rising external debt does not stop the government to subsidize housing (utilities), transportation, domestic and other services, which is a purchase of citizens' loyalty to the government. Moreover, Belarus gives free health and education. All these techniques demonstrate that the government fulfills its duty to its citizens by buying their political loyalty.

The decrease of the personal income tax, subsidized social payments have an adverse effect on the level of corruption in Belarus. In the state the government in exchange for the benefits corrodes its accountability and civil responsibility. So, the lack of accountability results in the high level of corruption. According to Corruption Perceptions Index created by Transparency International, Belarus scores 2.9 out of 10 and ranks 123 country in 2013. In general the level of corruption is high. After 2004 Belarus always ranks below 100 out of all countries included in the index (see table 8). So, the corruption in public sector is very high, which means that subsidized social payments and low income tax are brides for the society to close their eyes on unaccountable corrupt government. High credits to secondary sector and its low competitiveness on the world market are the outcomes of corrupt public sector. Huge investments in industry and agriculture do not justify low level of competitiveness on the world market, which suggests that part of investments goes to the wrong direction, notably, is the "corrupt-stolen" money. Hence, there is underinvestment in the human capital and in the development of technological innovations. For instance, Belarus accounted 0.02% share of the world high-tech export in 2006 (Lemeschenko 2011). As regards medicine, over the last period more than a half people died due to bloodstream diseases, 13% - due to the new formations, and only 10% of the dead is not the result of

morbidity. And the mortality rate in 2011 accounted 14.2 dead per 1000 people. Every fourth of the dead is the laboring population, and 80% of them are men. (Belstat) It demonstrates the low level of health care system, where 25% of mortality comes to able-bodied people. Low level of high-tech exportation and relatively low level of health care system show the absence of good investment to raise human capital and competitiveness on the world market.

Summing up the aforementioned information, the research educes that Belarus using its geographical position attracts Russian investment and subsidized oil and gas (external rents), hence, paradoxically falling into the resource curse trap. It became dependent on Russian oil and gas export along with trade process, where Russia is the biggest importer of Belarusian goods. This also brought to the Dutch disease syndrome, where tradable sector ends up with noncompetitive goods, but the reason of its high share in economy is the protectionism policy. In order to increase employment rate, service sector was widening. Additionally, Belarus experienced voracity, repression and taxation effects, which brought to high level of corruption and relatively low human capital. As a result, Belarus became a rentier state, benefitting from its geostrategic importance to Russia.

3.2 Kyrgyzstan

3.2.1 The Soviet Heritage

During the Soviet times the Kyrgyz SSR (KSSR) was one of the poorest and economically the most dependent on the center republics (Dabrowski, Antczak 1994). The Soviet government made relevantly large urbanization in the republic. Along with urbanization the Communist party established infrastructure and industrialization. In the 1950s there were big industrial building constructions. In 1970s the share of industry

reached 55.7%, agriculture – 22.5%. Also mineral and water power resources were used to develop power industry, fuel industry, non-ferrous metallurgy, and building material industry. Power industry, mechanical engineering, and metal-working manufacturing were the most growing sectors in the KSSR's economy. In agriculture farming accounted 47% out f all share. (Prohorov 1973, 159, 161-162, 164-167)

The KSSR was very integrated in economy just as most of the republics. The main freight turnover accounted for Central Asia and the Russian SFSR up to 96% (Prohorov 1973, 165). The KSSR served as a primary commodity provider for industries in the European part of the USSR. (Gleason 2003, 65; Dabrowski, Antczak 1994) In general, even proceeding industrialization process, the republic's share of agriculture was relatively high, making it an agrarian region. And the industrial sector could not exist outside the Soviet Union, as all resources for it were flowing from the rest republics. A large industrial sector was in critical situation, hence, fearing of possible de-industrialization after the collapse of the USSR (Abazov 1999, 203).

3.2.2 Post-Soviet Kyrgyzstan

After the Soviet breakdown Kyrgyzstan became independent on December 25th 1991. It was the only state in Central Asia that made deep and comprehensive economic and political reforms under the policy prescriptions of the "Washington consensus" (Gleason 2003, 65). Just after the breakdown Kyrgyz economy faced de-industrialization; first were hit the defense, mining and machine industries. It had unusual low level of budget revenue with a huge deficit. A public sector was shrinking; social benefits were cut. (Dabrowski, Antczak 1994; Gleason 2003, 72) From 1991-94 agriculture and industry decline was 59% and 27% (Kubicek 1988, 33). Many enterprises were closed, agriculture transformed into subsistence farming. Moreover, during this period Kyrgyzstan observed trade drop, inflation, large governmental fiscal

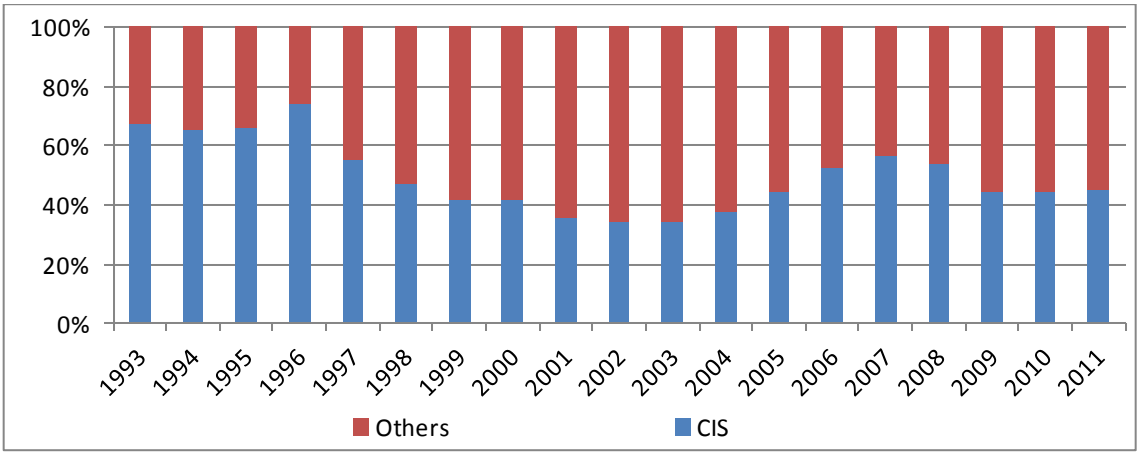
deficit and a considerable rise of unemployment up to 20% and mass emigration of highly skilled workers. (Gleason 2003, 65-66; Abazov 1999, 214-215)

The limited resource endowment and a small domestic market forced Kyrgyzstan to turn to export activity and external liberalization (Gleanso 2003, 69, Dabrowski, Antczak 1994). After the independence the state started to establish a market-based economy to integrate into the world market. So, Kyrgyzstan started to do fundamental changes in economic system: "the deregulation of the public sector and labor market, price liberalization, large-scale privatization, the creation of a modern banking and financial infrastructure, the development of legislative norms for the effective functioning of the private sector and a number of other measures" (Abazov 1999, 197). Shortly, first were institutional reforms, aimed at democratization process, and second were market-led reforms, minimizing state intervention and increasing private sector. (Abazaov 1999, 199-212)

It was an uneasy pass for the state. In the time of transition it faced macroeconomic destabilization, recession, a high level of unemployment and significant drop in all sectors of economy. However, by 1997 reforms started working. Manufacturing output increased by 30%. By 1996 private sector accounted 92,200 operating enterprises, employing around 750,000 people. FDI started to flow into the county. (Abazaov 1999, 216-217) Agriculture became the most efficient sector, employing half of total employment and accounting around 20% of export. (Gleason 2003, 71) But these advantages did not rehabilitate the negative effects as an increase of unemployment, poverty and social polarization. It was the result of the government's policy, targeting short-term profits in an expense of long-term development. (Abazov 1999, 218-221)

Since Kyrgyzstan has limited natural resource endowments, it had to liberalize trading in order to integrate into the world market. In figure 14 we observe that the export value of Kyrgyzstan to other than CIS countries has been rising since 1997, when the liberalization process running. In the middle of the 2000s we see a decline with the export trade with the non-CIS countries. In general there was an increase, but the external trading with CIS countries rose significantly (see table 9). Presumably, the reasons could be Tulip Revolution happened in spring 2005 and the upcoming global economic crisis. The export trading with non-CIS countries nearly never fell below 50%. Only from 2006-08 the value dropped down to 45%, but no more.

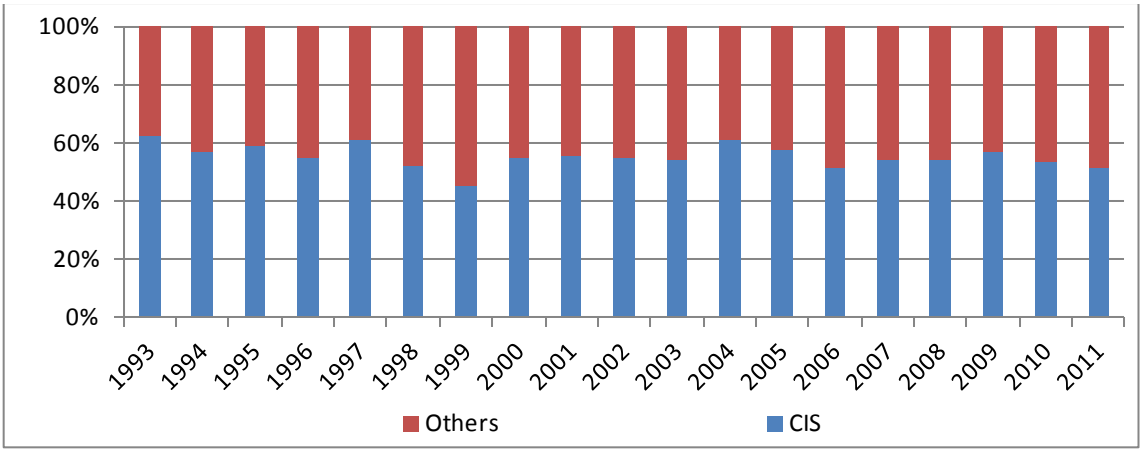
Figure 14 Kyrgyz Value of Export Trade in percentage



Source: Based on NSC

The main import value comes from CIS countries, accounting more than 50% (see figure 15), which are the after-effects of the Soviet integrated economy. Even if Kyrgyzstan is integrated in the world market, its landlocked territory and geographic location does not allow it to enter Western market easily. Therefore, the Soviet integration made Kyrgyzstan partially dependent on the

Figure 15 Kyrgyz Value of Import Trade in percentage



Source: Based on NSC

CIS countries. Table 1 shows the biggest export and import partners for Kyrgyzstan. The significant amount of export goes to Switzerland, excluding CIS countries. In the late 1990s German was the biggest importer of Kyrgyz products (Gleason 2003, 68). So, the Kyrgyz export trading is diversified, whereas import trading generally targets China and CIS countries, out of which Russia comprises the biggest share. However, according to table 1 China rises its import trading with Kyrgyzstan considerably.

Table 1 Kyrgyz External Trade by Selected Countries ($ Millions)

	Export			**Import**		
	2010	*2011*	*2012*	*2010*	*2011*	*2012*
Russia	257,8	284,4	219,1	1083,9	1429,6	1816,6
CIS (Russia excluded)	258,3	473,1	651,7	708,1	875	1216
Switzerland	387,9	873,6	547,9	13,1	14,3	15,7
China	28,3	42,4	61,4	666,3	923,5	1214,9
Turkey	37,2	54,5	50,2	84,7	117,1	175,6
Germany	5,8	9,7	16,4	88,6	144,6	197,8
USA	90,3	0,6	6,1	191,3	210,3	251,5

Source: Based on NSC and author's calculation

Consequently, liberal reforms gave Kyrgyzstan the ability to integrate into the world market. Nevertheless, being surrounded by authoritarian states and somehow influenced on its liberalization process and declined it. Moreover, as the government was targeting short-term profits rather than long-term development, it deteriorated political and economic stability of the state. A mass privatization brought to a high

unemployment, which resulted in several uprisings of the nation. Relatively low production of industry and agriculture and the landlocked territory (obstacle for trade) resulted in a gradually rising deficit in external trade (see table 9). As a result Kyrgyzstan was in search of alternative sources of money, which were, mainly, financial aid, grants and credits.

3.2.3 Geostrategic Importance

Kyrgyzstan is a landlocked country, locating in the middle of Asia. Kyrgyzstan also faced major challenges as many Central Asian countries in the end of 1990s. In 1999 several hundreds of Islamic extremists from Afghanistan, Uzbekistan and Tajikistan invaded to Kyrgyzstan. Lately, it influenced the rise of the Kyrgyz Islamic movement as Jamaat Kyrgyzstan Jaish al-Mahdi. (Nichol 2013, 20; Gleason 2003, 80-81) To secure its borders, the government needed the alternative source of defense, which afterwards became the Russian military base in Kant. In 2001 after the 9/11 incident Kyrgyzstan became important for its strategic location for the US, which deployed an airbase (Manas) near the capital Bishkek. Supporting with facts, there were conducted 3,294 refueling missions in 2008. Besides, this airbase hosts 1,500 US troops and transports 300,000 troops into and out of Afghanistan every year. (Nichol 2013, 23; Nichol 2009, 2-4; Cooley, 2006) Being poor and insignificant state, Kyrgyzstan became important for external actors as Russia and the US. In the 2000s this country turned into an arena of competition among external powers.

For all the years the US gradually increased the budget assistance to Kyrgyzstan. For 1992-2010 the cumulative US support accounted $1.22 billion (see table 10) without the rental payment and support for the Manas airbase. For 2011-12 the assistance summed up to $88.8 million (Nichol 2013, 22). Most of the American assistance is directed toward strengthening civil society, legislature, party system and

other democratic institutions. Concerning the base, a lease payment till 2006 was $2 million. After that it increased up to $17.4 million. In 2009 it reached $60 million per year. However, besides a lease payment the US government provided direct, indirect, and charitable expenses related to the Manas airbase. From 2009 till 2012 the expenses for the airbase comprised $532.2 million. (Nichol 2013, 23-24)

In 2009 the US funds accumulated 15% of Kyrgyzstan's national budget (Marat 2013). Though the US assistance is a significant inflow to national budget, the Manas airbase still is not an exclusive source of income. It rather became politicized (Cooley 2006) that the Kyrgyz government uses to attract more external rent. Of course, the base is a source of rent and it costs nothing to the state, while has an important value for the US. At the same time it is a political mechanism to find other sources of rent. The importance of the base to the fight against terrorism in Afghanistan provides "an extra bargaining chip" (Juraev 2009) for Kyrgyzstan. If before the Kyrgyz government had to keep up and preserve liberal values in order to receive financial aid from international banks, then after the arrival of Americans the international community did not express concern over Kyrgyzstan's deterioration of democratic institutions and liberal rights (Cooley 2006). For instance, in 2013 international donors pledged $940 million (Nichol 2013, 7). Moreover, Kyrgyzstan always threatens the US with closure of the Manas airbase to increase the US funding. In 2006 and 2009 the US increased the expenses on the airbase. Furthermore, the US assistance to Kyrgyzstan rose as well by around $60 million from 2006 to 2009 (see table 10). This fact highlights that the Manas airbase is strategically important object for the US.

However, the US is not the only actor in the region. Russia is the other actor, who has interest in Central Asia and Kyrgyzstan particularly. For the last decade Russia ramps up its influence in the region and the reason for that is an increase of gas and oil

prices. A flow of money to Russian economy allows it to play geopolitical game and feel a powerful actor on the international arena. After the US base deployment Russia signed a contract with Kyrgyz government to use the Kant airfield. A lease payment for the base makes up $4.5 million per year. In 2012 the agreement was extended for 15 more years with the same payment. The official purpose of the base is to combat regional terrorism and secure the CIS borders. (Nichol 2013, 18) However, the close location to Manas gives alternative explanation of Russian presence. According to scholars E. Marat, A. Cooley and the specialist in Russian and Eurasian Affairs J. Nichol, the hidden purpose of Russian presence is to minimize the American political and military presence in Central Asia including Kyrgyzstan (Nichol 2013, 18; Marat 2013; Cooley 2006). In exchange Kyrgyzstan got a substantial amount of loans and grants. In 2009 Russia gave $150 million grand for budget stabilization, $300 million loan for economic development and promised to sponsor hydropower projects at a price of $1.7 billion, which Kyrgyzstan should get in case of closure of the Manas airbase. Moreover, Russia cancelled a significant amount of debt – around $500 million in 2013. (Nichol 2013, 19; Marat 2013, Juraev 2009) Hence, this corroborates the fact that Russia was also interested in Kyrgyzstan.

The presence of two very powerful international actors in Kyrgyzstan transformed the region into the arena of struggle. Russian's concern about the possibility of the American base to permanently locate in the region pushed Russia to compete with the US to attract the Kyrgyz government's attention. Russia started to influence Kyrgyzstan to close the Manas airbase in several ways. Evidently, decisions on the closure of the base appeared right after summits or individual meetings. The final decision was made in December 2012, and the base has to be closed on July 11, 2014. (Nichol 2013, 19, 25; Cooley 2006) However, the official reason of the Manas airbase closure is the

termination of the counter-terrorist operation in Afghanistan (Nichol 2009, 5-6) and a strong negative public opinion about the US presence (Marat 2013). By Russian influence and propaganda via pro-Russian Kyrgyz media the US was considered negatively (Nichol 2009, 8).

Finally, Russian influence impacted on the Manas closure. It was the result of the Kyrgyz government's skillful use of the country's geostrategic importance "to bargain, extract, and increase financial dividends" (Juraev 2009) from external actors. The government was changing dynamics in the relations with the US and Russia, by blackmailing either to close Manas or to continue tight relationship with the US. The response from the US government was simple and predictable. US defense Secretary Robert Gates stated: "Manas is important, but it's not irreplaceable… We are prepared to do something that we think is reasonable… It is an important base, but it's not so important that we're going to waste taxpayer dollars paying something that's exorbitant" (US Department of Defense, 2009). Earlier the US already faced with similar situation. The problem was solved by increasing the amount of financial aid. Once it was increased in 2007, and then in 2009 (see table 10).

Anyway the final decision was made. So, why did Kyrgyzstan choose Russian side? It is important to look at the nature of the external actors' financial aid. The US aid is controlled and always targets specific projects, promoting education, free media, political participation and others. For instance in 2010 the US funded 415 civic projects, including peace-building (Marat 2013). In contrast to the US external rent, Russia gives a tidy sum without any detailed agenda behind it and forgives tremendous debt as well (see above). This geopolitical struggle between the US and Russia made their foreign aid extremely politicized. Therefore, Russian external rent is more attractive than American. The decline of the US presence will result in the rise of the Russian one.

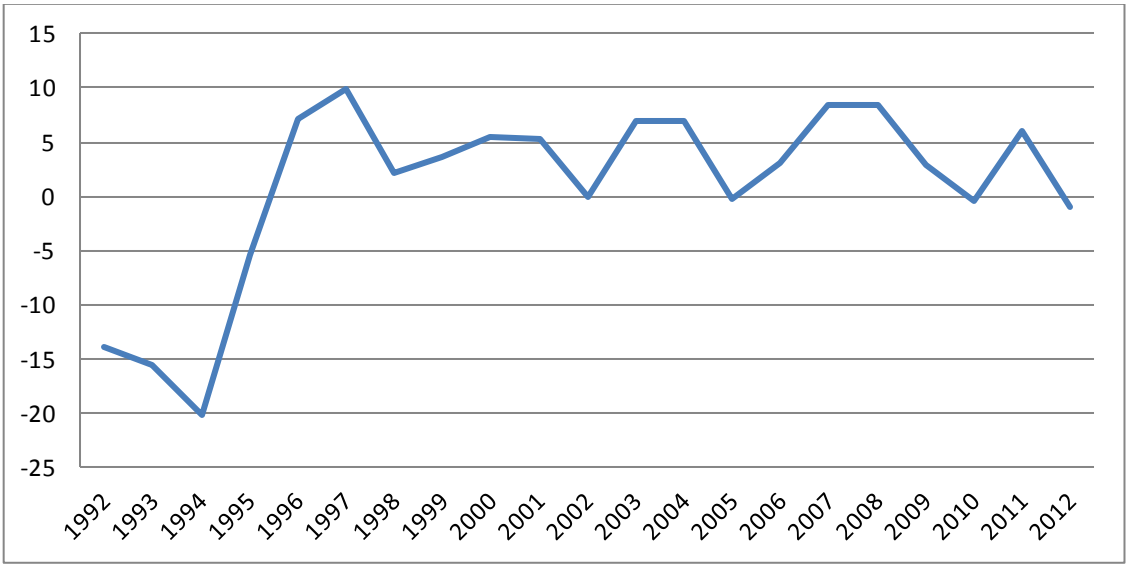
According to Nichol (2013), Kyrgyzstan will heavily depend on Russia's economic, political and security support (25), which can unfortunately give rise to authoritarianism (Marat 2013).

3.2.4 Geostrategic Curse

Having a limited resource access this country must seek for alternative sources of income. One of them is the use of its geographical location to attract external actors like the US. Besides that the Kyrgyz government seeks for other types of external rent. In the 1990s China invested around $90 million in different projects. The large amount of financial aid besides the US, Russia and international banks comes from Islamic world. In 2012 Turkey gave $106 million loan. (Marat 2013) Such political acts are an explicit demonstration of a rentier state behavior.

Most of Kyrgyzstan's policy is oriented toward finding external rents, and the aforementioned examples are evident to this statement. Therefore, it is difficult to claim that geostrategic importance is the only source of external rent, which deteriorates economic condition of the state. The political restructuring and influence of historical institutions (as integration to the Soviet economy) facilitated the economic recession in the 1990s. From 1996 Kyrgyzstan demonstrated economic growth (see figure 16), but the developmental process was slow and ineffective.

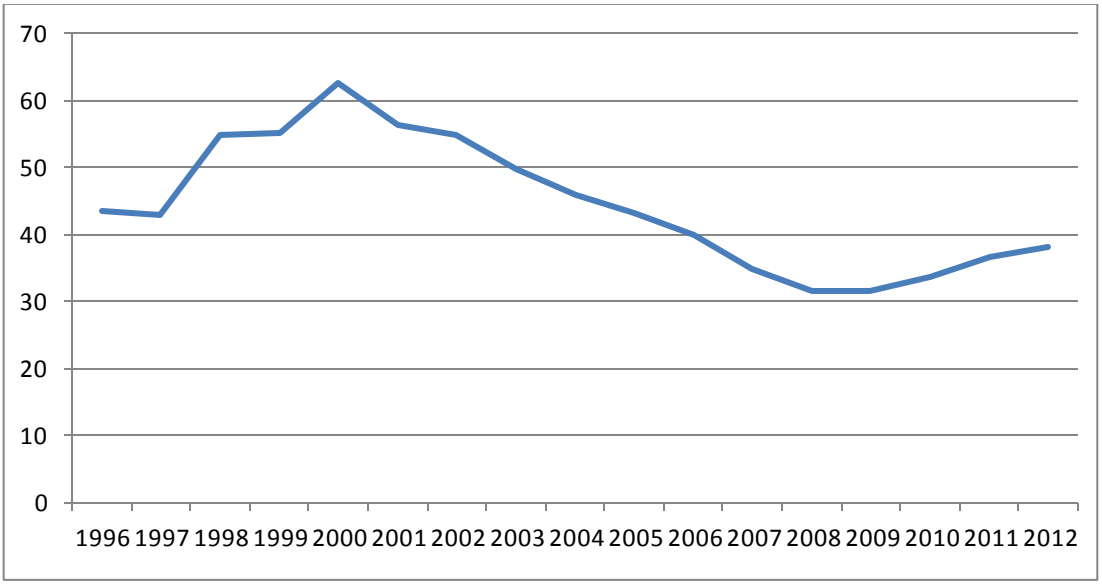
Figure 16 GDP Growth Rate of Kyrgyzstan in percentage



Source: World Bank

Looking at figure 16 Kyrgyzstan's economic growth shows up- and downturns. In 2012 the GDP fell to -0.9%. It was the result of poor harvest, reduction of gold production, increase of social payment and problems associated with global economy. Moreover, foreign investment declines at that period. (Nichol 2013, 14) Nevertheless, Kyrgyz economic development is hardly to call successful. In figure 17 we see a drop of the poverty rate from 62.6% in 2000 to 38% in 2012. It is a good sign, but around 2.12 million people still lives below the poverty line.

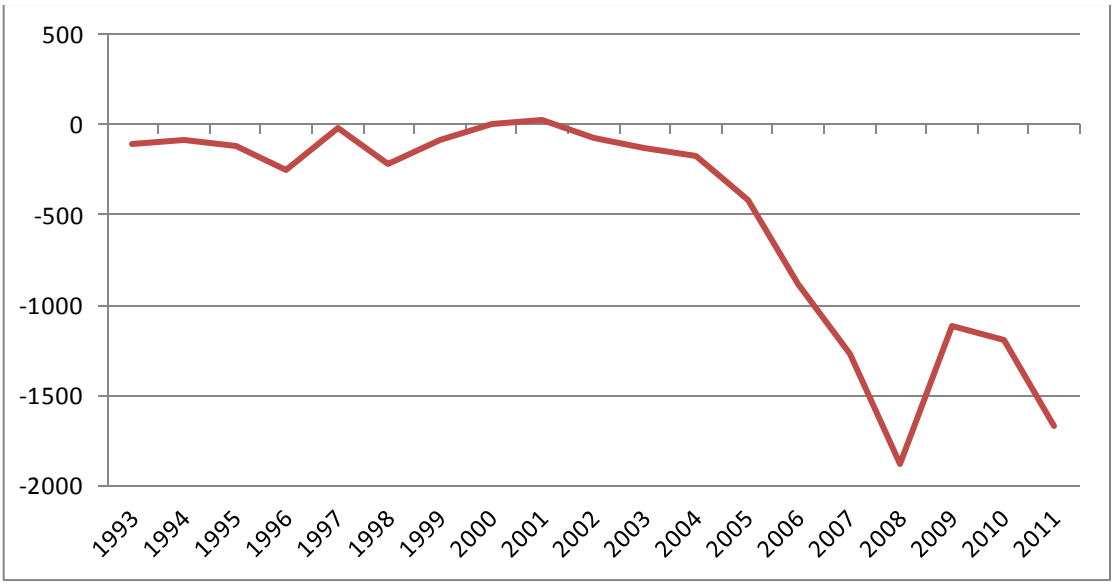
Figure 17 Kyrgyzstan's Poverty Rate in percentage



Source: Based on NSC

Looking at figure 17 it is important to highlight that the poverty rate started to decline gradually in the 2000s during the US presence. Due to that international banks did not express concern over the deterioration of democratic institutions (Cooley 2006) and gave higher share of credits.

Figure 18 Kyrgyzstan's Balance of Trade ($ Million)



Source: Based on NSC

However, since Kyrgyzstan is acting as a rentier state, it seeks for the short-term cash generator, not paying attention to its macroeconomic disadvantageous position.

Figure 18 shows the negative trend of external trading, where import strongly exceeds country's export. In 2009 the deficit in trade balance decreased. It can be the result of the Russian financial aid and the debt cancelation. Besides the external trade, Kyrgyzstan has a tremendous national debt, which accumulated around 50% to GDP. In table 2 we observe the rise of the external debt in 2009 and a fall by near 10% in 2012. In 2009, as it was mentioned, Kyrgyzstan received a huge loan from Russia (around $450 million), and in 2012 Russia canceled $500 million debt to Kyrgyzstan. The 2009 loan comprised 8.75% of GDP, and the cancelation of debt in 2012 accumulated 7.72% of GDP (author's calculation based on STAT. KG). Referring to table 2, the increase of the debt in 2008-09 was around 10% to GDP, which means that Russian loan was the lion's share of this increase. It says that Kyrgyzstan is dependent on the external rent, but it is not the solution to the problem. It only deteriorates it. Moreover, besides some positive economic growth, the poverty line in Kyrgyzstan is still huge (figure 17) and the national debt comprises around 50% of GDP (table 2), which is an indicator of economic downturn.

Table 2 The National Debt of Kyrgyzstan

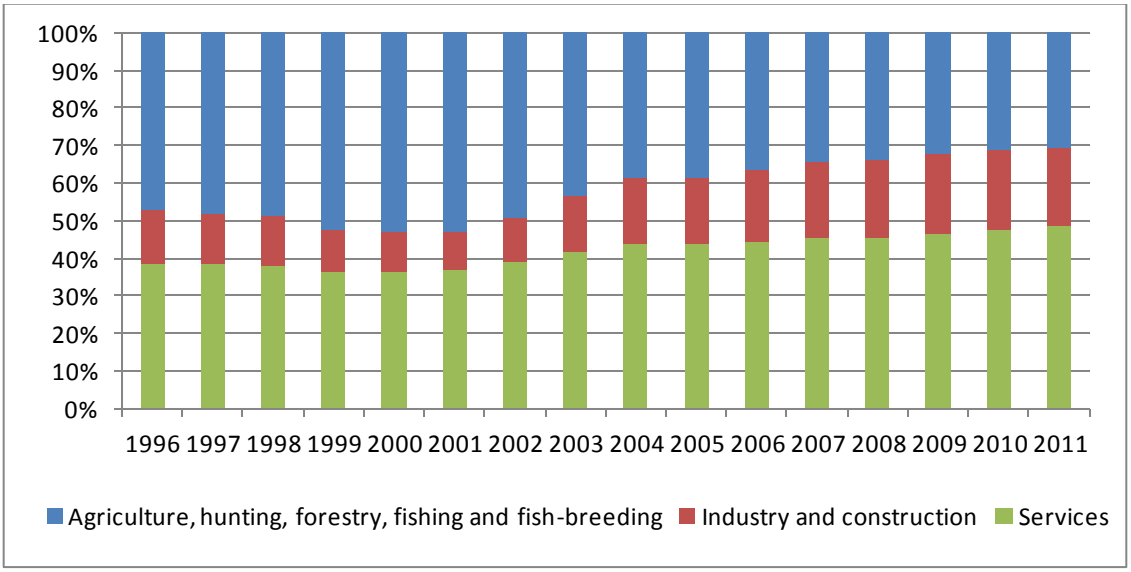
	2008	*2009*	*2010*	*2011*	*2012*
In millions of national currency Som					
National debt	**91426,1**	**117704,1**	**131557,5**	**143154,1**	**156719,4**
- external	83877,1	109152,5	123196,1	130279,5	143713,4
- domestic	7549,0	8551,6	8361,4	12874,6	13006,0
In percentage to GDP					
National debt	**48,6**	**58,5**	**59,7**	**50,1**	**50,5**
- external	44,6	54,2	55,9	45,6	46,3
- domestic	4,0	4,3	3,8	4,5	4,2

Source: NSC

To make a more rigorous observation, the economic sectors must be studied. According to World Bank, the three most important sectors of economy are: agriculture,

accounting 50% of the GDP; industry, accounting 18% of the GDP; and services accounting 32% of the GDP. In 2012 this picture looked differently. Agriculture comprised 20%, industry – 26%, and services 54%. The relevantly small share of industry and agriculture shifted labor force in the direction of the service sector. In the 1990s the Kyrgyz government thought that agriculture would be the most promising sector for solving the economic and social problems (Gleason 2003, 71). However, the free market economy restructured the sectors of economy. Due to the low competitiveness of the tradable sectors (agriculture and industry) in comparison with international products, they started to fade. Services prevailed in economy. This process was proceeded from the privatization, promoting the closure of many entities, because they were not lucrative. As a result of the transformation of market and the economic reforms, the number of registered unemployment grew from 1.8 in 1992 to 60.4 thousand in 2012. The unemployment rate did not fall below 8% in the 2000s (NSC). The other economic active population due to the decrease of industrial sector migrated mainly to Russia and Kazakhstan in the mid-1990s (Abazov 1999, 215).

Figure 19 The Structure of Employment: 1996-2011

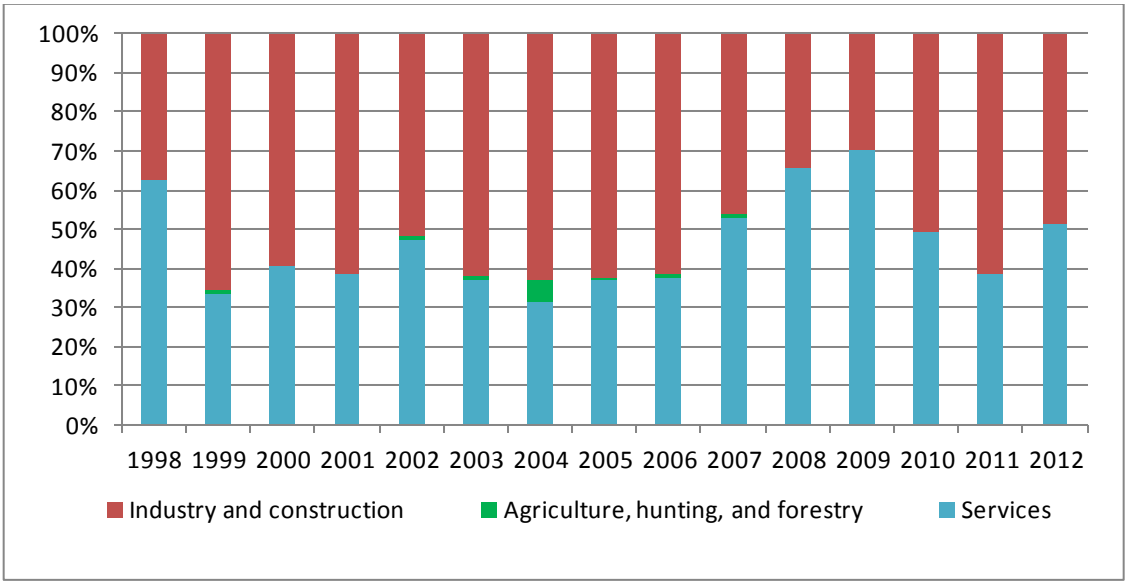


Source: Based on NSC

The structure of employment in Kyrgyzstan does not seem strange. Figure 19 demonstrates that service sector has a steady 40% employment in comparison with agriculture sector, which decreased employment by 20% on average. The industry sector now employs around 20%, which has grown from the beginning of 2000s. However, industry sector employment compensates on construction, which started to grow since 2003 (NSC). It employed a significant amount of population from 58 in 1996 to 249 thousand in 2011.

The rise of the industrial sector is also the result of the foreign investments. Figure 20 shows that services, industry and construction have the most share of FDI. It can explain the rise of industrial sector and its employment, and stable employment rate in service sector. In accordance to the aforementioned, Kyrgyzstan falls in the scope of the rentier state theory. Therefore, we observe the shrink of tradable sectors, even if they are the driving sectors of economy. In contrast, service sector grew tremendously, deteriorating the rest sectors and facilitating in the unemployment. From one side it looks like the Dutch disease; however, taking into consideration the liberalization and privatization processes, certain economic sectors have to grow forcing out uncompetitive ones. From the other side, taking into consideration the rentier state behavior, Kyrgyzstan is a country that seeks external rents. It can deteriorate economic conditions via political institutions, or impact development subject to smart investment.

Figure 20 Foreign Direct Investments by Sectors of Economy: 1998-2012



Source: Based on NSC

Figure 20 demonstrates that the significant amount of investment goes to industry, which is a driving sector of economy. In 2011 the amount of foreign investment exceeded half a billion US dollars (see table 12). It tells us that the Kyrgyz government made some steps forward to improve economic situation in the country. Nevertheless, according to the poverty rate, unemployment, the amount of external debt, the situation in Kyrgyzstan did not change strongly.

Therefore, we need to take into consideration the impact of external rents on political institutions, whether there are indirect effects or not. Initially, let's look at the voracity effect, which is shown by implementation of ambitious project and excessive expenditures for the public administration. In Kyrgyzstan this effect did not reveal itself highly. One of the few examples of this effect can be the planned construction of hydropower plants, valued $1.7 billion. This amount of money was offered by Russia to impact on the government to close the Manas airbase. However, in general there were no ambitious projects implemented throughout the time[4]. However, this effect can be

[4] This statement is the personal observation of the author, who lived in Kyrgyzstan for 3 (2007-10) years and caught the uprising period.

seen by the increase of the labor force in the public administration, which rose from 62 in 1996 to around 100 thousand employees (NSC). In addition, according to *New York Times* investigatory story, the lion's share of the American payments for the Manas airbase were neither accounted for nor taxed by the government (Cooley 2006). This kind of resource distribution ended up with three revolutions. The problem was that the voracity effect took place, but there was no masked demonstration of the governmental obligation fulfillment. In all three revolutions different ruling coalitions came to power. And today, according to Jim Nichol (2013), the Kyrgyz government established a system of coalition-based corruption, where every group of elite will be able to get some share from revenue (12).

Secondly, Kyrgyzstan does not face repression effect. The major reason for that can be the liberalization process, which strengthened private sector. Furthermore, the level of unemployment is relatively high and it stays in the same level, meaning that government does not make artificial jobs in coercive apparatus. By now Kyrgyzstan's coercive apparatus consists of 5000 border guards, 3500 police troops and 1000 National Guard troops, and armed forces numbered 10900 active troops (Nichol 2013, 19). The number of coercive apparatus per 100 thousand people accounts 172 officers, which is even below the UN recommended number. Consequently, the average expenditure on defense, social order and security accumulates 13.5% out of all state budget expenditure (see table 13). This amount is not considerable. Therefore, Kyrgyzstan does not face a repression effect.

Besides the two aforementioned effects, Kyrgyzstan faces the taxation one. The government does not have wide choice to handle the problem. One of them is social benefits, which gives opportunity to purchase people's loyalty. The taxation system in Kyrgyzstan did not change significantly. The taxes in general are not high. They mainly

target the business sector. But unstable political situation, predicating the three coup-de-tats, forces the government to make some social benefits in order to mitigate the population. Hence, the politics of liberalization and free market reaches a deadlock, and the government has to install some welfare politics. For instance, the subsidies on products rose from 200 in 1996 to 2392 million Som in 2011 (NSC). Moreover, the government in average spent 18.75% out of all state budget expenditure on social security, welfare, housing and communal services in the period 1996-2011 (see table 13). The rising external debt, large deficit balance in external trade did not stop the government to constantly spend on social benefits. This is the way to show the population that the state is doing something to solve economic problems by hiding them. The government presents this policy as it fulfills its duty to its citizens, but it only buys their loyalty. It leads to a vicious cycle: when the voracity effect becomes stronger and the government does not have enough resources to mitigate society, there happens revolution. Kyrgyzstan falls in to this scope.

Social benefits an adverse effect on the level of corruption in Kyrgyzstan. In the state the government in exchange for the benefits corrodes its accountability and civil responsibility. So, the lack of accountability results in the high level of corruption. According to Corruption Perceptions Index created by Transparency International, Kyrgyzstan scores 2.4 out of 10 and ranks 150 in 2013. In general the level of corruption is high. After 2007 Kyrgyzstan always ranks below 150 out of all countries included in the index (see table 14). So, the corruption in public sector is very high, which means that social payments and relatively low taxes are brides for society to close their eyes on unaccountable corrupt government. Nevertheless, Kyrgyzstan invests a lot of money to human capital (education and healthcare), which averages 33% out of whole state budget expenditures (see table 13). At first, it seems a successful way to

invest money for the long-term growth. On the other side, the other indicators of human capital do not match with expenditures on it. Firstly, one fourth of the population was not expected to reach the age of sixty (Gleason 2003, 81; NSC). Secondly, the number of doctors dropped from 15281 in 1992 to 13392 in 2012; the number of paramedical personal dropped from 44443 in 1992 to 32348 in 2012 (NSC). This drop goes along with the population growth and increase of the investment. One of the explanations to this situation is the migration, which is relatively high. The experienced and educated labor force leaves the country because of the high unemployment and in search of high salary. The other explanation is the corrupt sphere of public sector that includes education and healthcare; hence, most of the state expenditures in human capital are target to corruption. It can explain why the human capital indicators as life expectancy is low, and poverty and unemployment are high, even though the investment in this sector is high.

Summing up the aforementioned information, the research educes that Kyrgyzstan uses its geographical position to attract Russian and American investments. However, the geostrategic importance is not the only source of external rent for Kyrgyzstan, and, eventually, not the biggest one. It targets other sources of external rent extraction, making it a rentier state. However, being a rentier state, Kyrgyzstan did not face direct effects, because it established a free market. The liberalization process restructured the sectors of economy, widening the service one. It was not the result of a rentier state behavior. As for the indirect effects, only the voracity and taxation effects were seen. Yet the voracity effect does not contribute to ambitious projects, giving more jobs. The taxation effect is seen in various social benefits, which facilitates in the corrupt government. Drawing a conclusion, Kyrgyzstan is a rentier state with various sources of

external rent, including the geostrategic importance. And the state used it smartly and in own interests.

3.3 Belarus and Kyrgyzstan: Who is into External Rent?

Belarus and Kyrgyzstan have many in common. Comparing them, this research came into conclusion that both are rentier states, but this is peculiar differences in the scope of geostrategic curse. Both states have similar historic background. During the Soviet period Belarus was highly integrated in the state's economy, as well as Kyrgyzstan. The integration was different for both republics: Belarus was more focused on industrialization, while Kyrgyzstan was more of primary commodity supplier with agricultural bias. This difference impacted in the post-Soviet period. Belarus, being industrialized, did not have any natural resources to continue industrial production. Therefore, it searched assistance from Russia, seeing in it a guarantor of future economic relations. Kyrgyzstan, on the other hand, did not have prevailing sectors in economy and was the poorest region in Central Asia. Therefore, it turned toward transition process, establishing democratic institutions, privatization process and free market. Afterwards, its external trade became highly diversified. The FDI started to flow to the economy. But this process had its own aftereffects, which resulted in high unemployment and degradation of industry and agriculture, which were non-competitive.

Belarus, being authoritarian state, was politically isolated from western market, but Kyrgyzstan had a chance to attract different sources of income, targeting both western and eastern markets. However, both states were noncompetitive on export trading, which gradually increased their trade deficit along with national debts. So, they had to seek for alternative sources of income like external rents. Due to the political isolation, Belarus could get money only from Russia, which became the biggest trading

partner. For Russia this country was interesting both economically and strategically; Russian oil and gas pipelines pass through Belarus. moreover, Russia also has strategic military bases on the territory of Belarus.

Concerning Kyrgyzstan, it became geostrategically important to the US because of the war in Afghanistan. Its territory became a transit center for the US armed forces to redeploy troops and supplies for army in Afghanistan. Then the US presence induced Russians to struggle for the dominance in Central Asia. Consequently, while Belarus was only attracting one external benefactor, Kyrgyzstan used all its capability to satisfy both states and to get external revenue from both of them. Comparing the two cases, Belarus had no choice, hence became dependent on Russia, while Kyrgyzstan played a main role in the geopolitical game not being dependent on both Russia and the US. In other words, while Belarus was interested in Russia, Kyrgyzstan became the object of interest for both states.

Gaining profit from the use of geostrategic position, the assumption was that both states will face geostrategic curse, and it will lead to economic recession. In order to observe it the research looked at macroeconomic and sociopolitical indicators. Both cases demonstrated peculiar differences based on their Soviet legacy and post-Soviet transformation. Belarus fits perfectly to the scope of geostrategic curse. As the Soviet Union left the two oil refinery, the independent Belarus saw a satisfactory capacity in them. However, having scarce natural resources, Belarus had to buy a huge amount of oil from Russia. Using its geostrategic importance it attracted Russia and received a substantial amount of subsidized oil and gas resources. It resulted in resource curse with all its consequences. There was the restructuring of sectors of economy in the Dutch disease pattern. Subsequently, the state faced three indirect effects that external rent facilitates. In turn, they affected the political institutions, worsening human capital and

increasing the level of corruption. Drawing a conclusion, Belarus got into geostrategic curse, which redirected this country to resource curse. As a result, we observe obvious indirect impact of geostrategic importance on the economic conditions of the state.

As for Kyrgyzstan, the situation is quite different. Certainly, Kyrgyzstan represents a rentier state, but it does not completely face the effects of geostrategic curse. The state uses it to attract external rents; however, it is not the only source of external rents. On the whole, the research states, *all* external rents deteriorate economic conditions of the state. In Kyrgyzstan external rent as well as the liberalization process impacted a lot on restructuring of economic sectors. The noncompetitive ones had to shrink, while service sector started to widen. Uunemployment started to grow. The state could not do anything to preserve its economic driving sectors due to the liberalized economy, while Belarus used protectionism to preserve agriculture and industry and saved many jobs. Kyrgyzstan also faced only some indirect effects: in certain degree the voracity effect and the taxation effect. They impacted on the corruption level and worsened human capital. But if we look from the other side, Kyrgyzstan has a very scarce natural resource endowment. Additionally, after the collapse of the Soviet Union, Kyrgyzstan was and is one of the poorest countries in the region with no vital and constant source of income. In the beginning of the 1990s the corruption level was already high. Its political stability was always questionable; the revolutions are evidence to that. Taking into consideration these conditions, geostrategic importance can be evaluated rather a positive factor in short-run growth framework. Even with the presence of voracity effect and of high level of corruption, some part of the received external rent is still going to the developmental process and social life improvements. From this point of view it is better to have external rent, than have nothing.

This research came to a conclusion that both cases, having a similar historical legacy, diverted in the developmental process strongly. One stayed authoritarian, the other became partially free. One had pretty much planned economy, the other liberalized it. However, eventually, both states became rentier. For both of them it played negatively, but for Kyrgyzstan it is a better case out of the worst ones. The all-important point here is that geostrategic curse can have a real negative impact on economy.

Conclusion

There are a lot of theories in academic literature that study impacts of specific rents on economic and political institutions. All of them, in general, have a basis – a rentier state behavior. Consequently, neither natural resource revenue nor foreign aid are the only examples of rent's effect on economy. There has to be other types of external rent, which can facilitate economic downturn. This research is dedicated to study a specific source of external rent – geostrategic importance, and how its use affects on economic performance and political institutions of a state. Consequently, the main subject of the study is the use of external rent, received via geostrategic importance that attracts external benefactors. The process that worsens economic performance by using geostrategic importance was called **geostrategic curse**.

The importance of this research lies in underlying the fact that not only traditional types of rent can affect negatively on economy and political institutions. Both resource curse and aid curse theories explain this negative effect on economy by different angles. In resource curse, economy already has assets, which it will later convert into revenue/rent; in aid curse, state has to attract external actors in order to receive external rent. In geostrategic curse it combines both factors – geostrategic importance is an asset, and its use attracts external benefactors along with external rent. Hence, this thesis applies geostrategic curse theory in order to explain that not only natural resources and foreign aid deteriorate economic and political institutions, but also other sources of external rent do so. The relevance of this thesis is that it fills this gap in academic literature and supplements it with a new curse theory that analyzes the impact of external rents in a different angle.

This work also contributed to the existing literature by widening the use of curse theories, looking rather not at the presence of natural resource endowments or foreign

aid, but at the *allocation* of rents. Stressing more attention on geostrategic curse, this thesis argues that the use of geostrategic importance, considered as a revenue-gaining source, impacts negatively on economic performance of a state on presuppositions that it does not have other major alternative revenue channels. It underlines the statement, other types of external rent impact on economy.

In order to understand the process how external rent can affect economy, there was used a rentier state theory. To analyze this issue the two cases were chosen: Belarus and Kyrgyzstan. Both states were geostrategically important: Belarus for Russia; Kyrgyzstan for the US and Russia. The importance of Belarus consisted in the transition of Russian oil and gas pipelines and the presence of Russian strategic military base. The importance of Kyrgyzstan consisted in its close location to Afghanistan, making it convenient transit region to redeploy the US armed forces.

Demonstrating the cases' geostrategic importance the research studied the adverse effects of the use of external rent, gained from Russia and the US. These adverse effects were from resource curse and aid curse theories. They are the direct effects on trade and economic sectors, and indirect ones on sociopolitical institutions. To understand how institutions get affected, this thesis bases its analysis on the work *Why Nations* Fail written by Acemoglu and Robinson. Their work underlines the specific turning points of institutional development that this research used to explain the changes in Kyrgyzstan and Belarus. Moreover, via case study it shows the direct effect of external rent on economic sectors, mainly agriculture, industry and services, applying the Dutch disease framework. Geostrategic curse, having similar structures of resource curse and aid curse, facilitates in restructuring of economic sectors. In each case the study identified booming sector and related its emergence to external rent. In Belarus it was industrial sector, especially oil and gas; in Kyrgyzstan – service sector. Such restructuring was not

only the result of external rent impact, but also the historical legacy. Then there was shown the deterioration of sociopolitical institutions via three indirect effects: *voracity*, *repression* and *taxation*. In case of Belarus, the effects impacted on sociopolitical institutions worsening human capital and increasing the level of corruption. Kyrgyzstan demonstrated the impact of voracity and taxation effects, which were results both of external rent and already weak institutions.

Consequently, the deductions show that in Belarus the external rent impact was significant, while in Kyrgyzstan it played a collateral role. Belarus became dependent on Russian cheap oil and gas subsidies and got into geostrategic curse. Now Belarusian economy is highly integrated with Russian one, which makes it vulnerable to any political and economic changes in Russia. As regards Kyrgyzstan, geostrategic importance became one of the sources of external rent, meaning that it was already a rentier state. Already existed poor economic development and weak political institutions made the presence of geostrategic importance an additional source of external rent. Kyrgyzstan had to be evaluated in the light of alternative development strategies. Therefore, this case study took into consideration a deep liberalization process, happened in the 1990s. Being highly diversifies economy in external trading, Kyrgyzstan does not have the only predominant partner in this sphere. Moreover, liberalization process affected on some indicators of economic development, like poverty and unemployment. And being one of the poorest countries in Central Asia with scarce natural resources, Kyrgyzstan's geostrategic importance became rather a positive factor. The inflow of additional resources helps the state to hold its economic performance on a relatively positive level. Moreover, as its geostrategic position attracted two countries, it made Kyrgyzstan less affected by external benefactor's economic and political changes in comparison to Belarus. But in 2014 the presence of

the US in Kyrgyzstan will be limited sufficiently. Therefore, I forecast that Kyrgyzstan will have even bigger economic and political deterioration, since it will be dependent mainly on one external benefactor – Russia – and its rent.

By means of the case study this research confirms the assumption that geostrategic importance can be the source of external rent, and it affects negatively on economic performance and sociopolitical institutions. In overall, both cases demonstrate this pattern with presupposition that the historical legacy can be the additional factor of this negative pattern. If to move away the emphasis on the historical legacy and focus only on external rent, then the situation pictures this way: external rent from the geostrategic importance still worsens Belarusian economic performance, but in case of Kyrgyzstan it seems differently. The absence of natural resources and of competitive market stops the development process strongly. However, the inflow of external rent allows the government to support a little economic growth in a short-run.

Therefore, considering the results geostrategic importance is mainly the negative factor. Nevertheless, when it is the only source of revenue, it can have a short-term positive effect, but it does not solve the issue completely. In order to understand this in more rigorous details the future research can be dedicated to study a rent-seeking behavior among elites; in other words, how elites use geostrategic importance and herewith choose external benefactors.

Appendices

Table 3 External Trade of Belarus ($ Millions)

	1995	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
External Trade	10 367	15 972	15 737	17 113	21 504	30 265	32 687	42 085	52 968	71 952	49 873	60 168	87 178	92 464	80 231
Export	4 803	7 326	7 451	8 021	9 946	13 774	15 979	19 734	24 275	32 571	21 304	25 284	41 419	46 060	37 232
Import	5 564	8 646	8 286	9 092	11 558	16 491	16 708	22 351	28 693	39 381	28 569	34 884	45 759	46 404	42 999
Trade balance	-761	-1 320	-835	-1 071	-1 612	-2 717	-729	-2 617	-4 418	-6 810	-7 265	-9 600	-4 340	-344	-5 767
CIS	6 704	10 469	10 291	10 679	13 484	19 201	18 202	23 121	30 237	40 317	27 540	34 172	48 470	53 834	48 200
Export	3 027	4 399	4 494	4 384	5 435	7 318	7 060	8 609	11 221	14 360	9 316	13 636	20 375	23 693	23 005
Import	3 677	6 070	5 797	6 295	8 049	11 883	11 142	14 512	19 016	25 957	18 224	20 536	28 095	30 141	25 195
Trade Balance	-650	-1 671	-1 303	-1 911	-2 614	-4 565	-4 082	-5 903	-7 795	-11 597	-8 908	-6 900	-7 720	-6 448	-2 190
Russia	5 150	9 315	9 401	9 899	12 482	17 704	15 834	19 944	26 084	34 059	23 444	28 035	39 439	43 860	39 717
Export	2 185	3 710	3 963	3 977	4 880	6 485	5 716	6 845	8 879	10 552	6 718	9 954	14 509	16 309	16 829
Import	2 965	5 605	5 438	5 922	7 602	11 219	10 118	13 099	17 205	23 507	16 726	18 081	24 930	27 551	22 888
Trade Balance	-780	-1 895	-1 475	-1 945	-2 722	-4 734	-4 402	-6 254	-8 326	-12 955	-10 008	-8 127	-10 421	-11 242	-6 059
Other Countries	3 663	5 503	5 446	6 434	8 020	11 064	14 485	18 964	22 731	31 635	22 333	25 996	38 708	38 630	32 031
Export	1 776	2 927	2 957	3 637	4 511	6 456	8 919	11 125	13 054	18 211	11 988	11 648	21 044	22 367	14 227
Import	1 887	2 576	2 489	2 797	3 509	4 608	5 566	7 839	9 677	13 424	10 345	14 348	17 664	16 263	17 804
Trade balance	-111	351	468	840	1 002	1 848	3 353	3 286	3 377	4 787	1 643	-2 700	3 380	6 104	-3 577

Source: Belstat

Table 4 Current Account Balance of Belarus

Year	*$ Millions*	*% of GDP*
1996	-516	-4.5
1997	-859	-8.1
1998	-1017	-14.9
1999	-194	-3.6
2000	-338	-3.9
2001	-401	-3.3
2002	-339	-2.3
2003	-427	-2.4
2004	-1194	-5.2
2005	+436	+1.4
2006	-1448	-3.9
2007	-3038	-6.7
2008	-5049	-8.4
2009	-6326	-12.9
2010	-7000	-14

Source: 1992-6 GDP, EBRD Transition Report 2001, p. 59; 1996-2004 GDP and prices, OECD Belarus; Belstat; for 2009 and 2010 www.imf.org/external/pubs/ft/scr/2010/cr1089.pdf (extracted from Wilson 2011, *Belarus*. The Last Dictatorship in Europe, p. 261).

Table 5 Export and Import with Russia, in percentage

Year	*Export*	*Import*
1997	15,75	30,61
1998	63,18	64,58
1999	53,59	68,52
2000	48,72	79,91
2001	51,64	73,07
2002	46,69	77,74
2003	45,67	78,05
2004	44,52	73,69
2005	34,21	61,02
2006	33,26	58,03
2007	34,94	59,96
2008	30,8	60,22
2009	29,19	58,59
2010	37,7	58,09
2011	31,63	63,36
2012	66,22	66,17

Source: OEC

Table 6 Share of Import of Mineral Resource from Total Russian Import

Years	*In percentage*	*Total Import from Russia ($ Billions)*
1997	99,58	1830
1998	41,33	4040
1999	27,43	2790

2000	46,56	5000
2001	39,97	4710
2002	39,07	5160
2003	18,45	5020
2004	46,43	10100
2005	55,27	8990
2006	56,56	11800
2007	63,53	15700
2008	59,44	21600
2009	67,51	15100
2010	58,76	16600
2011	66,6	22700
2012	70,57	25500

Source: OEC

Table 7 Volume of Paid Services to Population

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
in actual prices, bln. Bel. rub.	632,6	1367	2496	4049	5212	6776	8307	9988	12608	14223	15691	21 519,7	37233,3	53 941,4
in comparable prices, in percentage to preceding year	104,9	109	108,7	111,2	112,9	115,3	111,2	111,5	113,9	102,8	111,5	105,7	107,6	107,9

Source: Belstat

Table 8 Corruption Perceptions Index of Belarus

Years	*Rank*	*Score*
1998	47	3.9
1999	58	3.4
2000	43	4.1
2001	N/A	N/A
2002	36	4.8
2003	53	4.2
2004	74	3.3
2005	107	2.6
2006	151	2.1
2007	150	2.1
2008	151	2.0
2009	139	2.4
2010	127	2.5
2011	143	2.4
2012	123	3.1
2013	123	2.9

Source: Transparency International

Table 9 External Trade of Kyrgyzstan ($ Millions)

	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
External trade	786,3	766,1	939,8	1314,1	1276,8	1290,8	1013,7	1017,8	929,5	1069,5	1313,4
Export	339,6	340	408,9	531,2	630,8	535,1	462,6	510,9	480,3	498,1	590,3
Import	446,7	426,1	530,9	782,9	646	755,7	551,1	506,9	449,2	571,4	723,1
Trade Balance	-107,1	-86,1	-122	-251,7	-15,2	-220,7	-88,6	4	31,1	-73,3	-132,8
CIS	505,5	466	582,3	825	742,3	643,7	440,2	493,4	422,3	482	596,9
Export	227,5	222,8	269,2	393,9	346,3	252	191,5	213,7	172,2	170,3	202,4
Import	278	243,2	313,1	431,1	396	391,7	248,7	279,7	250,1	311,7	394,5
Trade Balance	-50,5	-20,4	-43,9	-37,2	-49,7	-139,7	-57,2	-66	-77,9	-141,4	-192,1
Other States	280,8	300	357,5	489	534,6	647,2	573,4	524,4	507,1	587,3	716,6
Export	112,1	117,1	139,7	137,3	284,5	283,1	271	297,2	308	327,7	387,9
Import	168,7	182,9	217,8	351,7	250,1	364,1	302,4	227,2	199,1	259,6	328,7
Trade Balance	-56,6	-65,8	-78,1	-214,4	34,4	-81	-31,4	70	108,9	68,1	59,2

Source: NSC and author's calculations

Table 9 External Trade of Kyrgyzstan ($ Millions) (Continued)

	2004	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
External trade	1637	1792,3	2698,4	3951,4	5627,9	4507,4	4763,5	6207,1

Export	733,2	686,8	906	1337,8	1874,4	1693,8	1782,6	2271,2
Import	903,8	1105,5	1792,4	2613,6	3753,5	2813,6	2980,9	3935,9
Trade Balance	-170,6	-418,7	-886,5	-1275,8	-1879,2	-1119,8	-1198,3	-1664,7
CIS	832	946,3	1401,9	2174,6	3037,1	2346,5	2378,3	3042,2
Export	277,6	305,3	476,1	753,9	1011,7	752,8	788,1	1023,9
Import	554,4	641	925,8	1420,7	2025,4	1593,7	1590,2	2018,3
Trade Balance	-276,8	-335,7	-449,7	-666,8	-1013,7	-840,9	-802,1	-994,4
Other States	804,9	846	1296,5	1776,8	2590,8	2160,9	2385,1	3165,1
Export	455,5	381,5	429,9	583,9	862,7	941	994,5	1247,4
Import	349,4	464,5	866,6	1192,9	1728,1	1219,9	1390,6	1917,7
Trade Balance	106,1	-83	-436,7	-609	-865,4	-278,9	-396,1	-670,3

Source: NSC and author's calculations

Table 10 US Budgeted Assistance to Kyrgyzstan by objective and years ($ Million)

Objective	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Economic growth	0,91	7,5	50,16	14,45	11,94	11,88	11,53	17,36	12,63	11,2	19,76	14,33
Governing Justly & Democratically	0,55	3,54	7,75	5,92	4,21	5,11	8,38	9,42	9,21	12,8	14,92	13,43
Investing in People	0,47	2,34	3,98	2,76	4,1	4,03	3,42	3,75	4,32	3,68	5,56	7,06

Reace and Security	0	0,7	0,05	0,09	1,28	1,5	3,27	3,79	7,25	6,55	38,62	11,28
Humanitarian	11,1	94,14	28,42	21,21	42,1	1,33	23,69	26,8	16,32	4,82	4,76	5,29
Cross-Cutting & Program Support	0	0	0	0	0	0	0	0	0	4,02	10,84	2,45
Total	13,03	108,22	90,36	44,43	63,63	23,85	50,29	61,12	49,73	43,07	94,46	53,84

Source: Derived from US Department State, Office of the Coordinator for Europe and Eurasia (extracted from Nichol, 2013)

Table 10 US Budgeted Assistance to Kyrgyzstan by objective and years ($ Million) (Continued)

Objective	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*Total*
Economic growth	14,79	13,75	12,28	12,07	10,3	39,13	26,53	312,5
Governing Justly & Democratically	14,02	14,31	9,89	15,12	15,38	12,17	14,82	190,95
Investing in People	7,18	5,82	5,66	7,48	6,45	7,02	7,48	92,56
Reace and Security	12,33	17,44	13,27	18,78	37,57	42,23	48,62	264,62
Humanitarian	5,97	3,42	0,87	0,75	0,61	7,92	16,05	315,57
Cross-Cutting & Program Support	0,97	0,5	1,48	17,06	0,92	3,26	4,03	45,53
Total	55,26	55,24	43,45	71,26	71,23	111,73	117,53	1221,73

Source: Derived from US Department State, Office of the Coordinator for Europe and Eurasia (extracted from Nichol, 2013)

Table 11 The Employment by Sectors of Economy (in thousands)

	Total	Agriculture, hunting, forestry, fishing and fish-breeding	Industry and construction	Services
1996	1651,5	778,6	240,7	632,2
1997	1689,3	815,6	228,6	645,1
1998	1704,9	835,4	222,5	647
1999	1764,3	924,3	204	636
2000	1768,4	938,5	185,3	644,6
2001	1787	945,7	184,8	656,5
2002	1850,1	908,2	221,8	720,1
2003	1930,5	834,7	289,9	805,9
2004	1991,2	774,6	350	866,6
2005	2077,1	799,6	365,2	912,3
2006	2096,1	760,2	406,7	929,2
2007	2152,7	742,4	436,5	973,8
2008	2184,3	743	451	990,3
2009	2216,4	718,6	470,1	1027,7
2010	2243,7	699,1	473,6	1071
2011	2277,7	700,3	477,6	1099,8

Source: NSC

Table 12 Direct Foreign Investments by Sectors of Economy ($ thousands)

	Total	Industry and construction	Agriculture, hunting, forestry, fishing and fish-breeding	Services
1998	136 301,2	50732,8	299,9	85 268,5
1999	108 562,1	71384,6	620,3	36 557,2
2000	89 607,9	53303,9	40,8	36 263,2
2001	90 088,5	55347,4	130,1	34 611,0
2002	115 666,1	60058,8	805,3	54 802,0
2003	146 955,5	90810,1	2 009,90	54 135,5
2004	175 585,4	110946	9 752,70	54 886,7
2005	210 306,2	131334	763,4	78 208,8
2006	335 589,2	205921	3 561,00	126 107,2
2007	436 821,6	202132,5	4 268,10	230 421,0
2008	866 200,6	297620,1	583,6	567 996,9
2009	660 949,3	195242,3	17,6	465 689,4
2010	666 086,0	337503,7	2,7	328 579,6
2011	849 201,1	522387,6	3,5	326 810,0
2012	590 733,3	286072,8	2 045,70	302 614,8

Source: NSC

Table 13 Expenditure of State Budget (in thousands of Som)

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Government service	579504,0	850354,0	1014821,0	1374973,0	1755502,0	2104869,3	2255455,2	2640837,5	3097492,0
Defense, social order and security	699235,0	955021,0	911810,0	1308877,0	1881586,0	1732591,1	2055021,9	2403651,0	2686666,2
Education	1222830,0	1514035,0	1681599,0	1991278,0	2293036,0	2847580,5	3350426,8	3753551,6	4361258,4
Healthcare	732917,0	977072,0	962091,0	1125313,0	1295873,0	1379026,6	1527240,4	1629945,0	1926520,6
Social security and welfare	884862,0	1055305,0	981028,0	1198145,0	1113942,0	1417093,6	2340543,9	2588668,5	2644783,7
Housing and communal services	297789,0	279644,0	373682,0	464720,0	666537,0	800867,4	1131193,3	1193437,3	1057713,2
Total expenditure	5202357,0	6695680,0	7298339,0	9311963,0	11308223,0	12255730,8	15188614,2	16890586,6	18841523,2

Source: NSC

Table 13 Expenditure of State Budget (in thousands of *Som*) (continued)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Government service	3033240,9	3355675,5	4221707,3	6740240,1	8572562,6	8191395,6	10130625,3
Defense, social order and security	3105367	3605919	4338523,3	5464222,6	6382260,2	8475787,5	9720300,3
Education	4917667,9	6315746,4	8012760,8	9618838,3	11502249,6	11993832,4	18239033,8
Healthcare	2283256,2	3059233,3	3664862,5	4391924,7	5816473,9	6413264	9084196,1
Social security and welfare	2858167,7	3610567,8	3780592,5	4659855,6	5587094,6	11075226,2	14182532,2
Housing and communal services	1040483,1	1415777,6	1710629,4	2303673,8	2441790,1	2504236	2893312,9
Total expenditure	20143246,7	25296610,6	35859351	45032029,1	58628209,1	68781197,9	91544096,4

Source: NSC

Table 14 Corruption Perceptions Index of Kyrgyzstan

Year	Rank	Score
1999	87	2,2
2003	118	2,2
2004	122	2,2
2005	130	2,3
2006	142	2,2
2007	150	2,1
2008	166	1,8
2009	162	1,9
2010	164	2
2011	164	2,1
2012	154	2,4
2013	150	2,4

Source: Transparency International

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