

# **STRUCTURAL CHANGES IN THE CENTRAL ASIAN ECONOMIES SINCE 1991**

*Dissertation submitted to the Jawaharlal Nehru University in partial  
fulfilment of the requirements for the award of the degree of*

**MASTER OF PHILOSOPHY**

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## CERTIFICATE

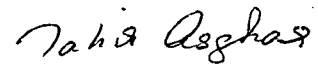
Certified that the Dissertation entitled "**Structural Changes in the Central Asian Economies Since 1991**" submitted by **Kishore Kumar Wankhade**, is in the partial fulfilment of the requirements of the award of the degree of **Master of Philosophy** of this University. This dissertation has not been submitted for any other degree of this University, or any other University and is his own work.

We recommended that this dissertation may be placed before the examiners for evaluation.



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## ***PREFACE***

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The Region is facing many complex political and economic changes. The change, in the political sphere necessarily brings out changes in the economic as well as social sphere also. With the disintegration of the erstwhile Soviet Union, the mighty commands of authoritarian rule were mercifully gone and so too inevitably, was the system of central command, thus resulting in state enterprises facing a lack of clear incentives for restructuring as well as the challenges of significant dimension. At this crucial juncture, the Central Asian economies needed economic reforms measures to adopt the market forces.

The overcome the grave economic setback faced often the fall of Soviet Union. The Central Asian economies have begun to take into account the necessary structural changes in the economy in a determined effort to relaunch the stalled process of development through reduction of public sector expenditure and to cutback the scope of state intervention in economy to make it more market oriented with greater reliance on market forces.

This dissertation deals comprehensively but extensively with the process of economic reforms and progress of structural changes in Central Asian economies during its transition from a centrally planned economy to a self regulatory market model of economic relations.

The introduction deals with the concept of structural changes and why it is needed in Central Asia. A brief introduction of Central Asian is also given.

The first chapter depicts the economic situation that prevailed in Central Asian economies at the time of Soviet Union's collapse. A background of the reformist measures initiated in the Soviet Union since 1985 is also been looked into.

The second chapter deals with the various economic reforms that were undertaken in the Central Asian economies. A brief outlook has been given on price liberalisation, privatisation, financial sector reforms, foreign direct investments etc.

The third chapter focuses mainly on the changes that have taken place in the relative share of various sectors in the economies of Central Asian states after the beginning of the economic reform.

At last, the conclusions speaks a few words about the problem, and future prospects of structural changes in economic reform of Central Asian economies.

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## *ACKNOWLEDGEMENTS*

*One realises how an end is also a beginning. At least in the case where the end of the dissertation implies a return to the past to recollect the day when I actually began this.*

*With the final sentence having been written, it is time to acknowledge those without whose critical help this would not have been possible.*

*I would like to express my deep sense of gratitude to Dr. Tahir Ashgar, my supervisor, without whose constant encouragement and guidance this work would have been like any other one-line thought.*

*I am thankful to staff of the JMU Library for their kind help and cooperation.*

*I am thankful to Raju for meticulously typing the manuscript of my dissertation.*

*For invaluable suggestions, my genuine thanks to my friends Kumar Neeraj, Prashant, Manish, Nilanjana and Sanjay for the consideration they have shown to me from time to time in the preparation of this work.*

*I am obliged to my parents and family for their constant support in every ups & downs of my life.*

**(KISHORE KUMAR WANKHADE)**

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***DEDICATED TO***

***MY BELOVED PARENTS . . .***

## **INTRODUCTION**

The global trend of structural changes is causing sweeping changes world over. Relatively stable relations in an economic or social system are commonly described as its "structure". Without a formal modal of the underlying relations, any observed change in the composition of demand or other economic aggregate can be defined as 'Structural Change'.<sup>1</sup>

The formulation of even a indimentary model of the underlying process makes it possible to narrow this definition by distinguishing between a) changes in composition that are predicted by the model with constant parameters and b) those that result from the changes in the structural parameters with a more complete specification of the underlying process. A larger proportion of the observed change can be explained by the model and a smaller proportion is attributable to changes in its structural parameters. Except, use the term 'Structural change' to refer the structure of the economy<sup>2</sup>.

In the neo-classical economy, an increase in the gross national product is a relatively good proxy for the growth of economy. However, of central importance is the sequence of structural change in production, trade and capital inflows and the relations of these changes to government policies and achievement of moderate to high growth and a maintainable pattern of structural changes.

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<sup>1</sup> Chenery Hollis, "Structural Change and Development", A World Bank Research Report, Oxford University Press, New York, 1979, p. 108.

<sup>2</sup> Ibid. p. 109

The central question for most of the developing countries concerns the management of the rapid structural changes that are required both to sustain growth and to improve its distribution. In dealing with this question, it is useful to conceive of development as a transition from traditional to modern forms of economic organisation, rather than as a process of uniform expansion.

After the disintegration of the former Soviet Union, the shortcomings in a centrally planned economy based on a socialistic pattern with Marxist - Leninist dialect are being witnessed all over the world. Severe inflation, less output in public sectors, less surplus for growth, high fiscal deficit, imbalances in various sectors of economy, shortage of food and high trade imbalances etc. can be viewed as few such shortcomings in a centrally planned economy.

The impact of quitting a centripetal economy, and prevailing conditions in Central Asian economy at the time of Soviet Union's dissolution forced Central Asian state governments to carry out various economic reform programmes. Hence economic reform measures were initiated in the forms of price liberalisation, privatisation, agrarian reforms, capital and labour movement and financial sector reforms have taken place in Central Asian economies.

The Central Asian states tried to create economic condition conducive to economic activities thus trying to attract attention of IMF, World Bank, Asian Development Bank, EBRD and bilateral donors. The economic conditions were also made suitable for Foreign Direct Investment from various

multinational companies. Thus all the Central Asian states seem publicly committed to economic reforms.

In all the Central Asian States, governments have been carrying out various economic reform measures like privatization, price liberalisation without enterprise restructuring and still continuing with state enterprises. In these circumstances privatisation and price liberalisation had proved a risky gambit because there was no public experience of a market oriented system. However, there have been certain radical structural changes as a part of economic reform measures in Central Asian economies.

### **Brief Introduction to the Study Area**

The disintegration of erstwhile Soviet Union in 1991, led to the independence of five Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

Central Asia is an amalgam of diverse influences and cross cultural fertilisation and it has acquired a position of high priority in the world, mainly for its geo-strategic position. Central Asia is so strategically placed that its northern region borders the Russian Federation, to its east is China and in the south lie Iran and Afghanistan whereas on the west it is washed by Caspian Sea.

Geographically there are mountains, in the eastern and southern periphery, the fertile basins of the valleys in the centre, the forests in the remote south

and the steppes of the north, do entail diverse modes of adjustive behaviour suited to the environmental imperatives and climatic variations.

It is one of the world's largest landlocked entity with a land mass of approximately 4 million sq. km and endowed with human resources, supporting combined population of around 56 million people, with a very high growth rate.

**Table: 1**  
**Basic Structural Data (1997)**

	Surface area 000 sq. km.	Population (million)	Persons per sq.km.	Annual Population growth rate %	GNP average annual growth %	GNP per capita US\$
Kazakhstan	2717	16	6	0.9	1.7	1350
Kyrgyzstan	199	5	24	1.8	8.6	480
Tajikistan	143	6	42	2.7	2.2	330
Turkmenistan	488	5	10	2.8	-24.0	640
Uzbekistan	447	24	56	2.6	3.4	1020

Source: World Development Indicators, 1999, A World Bank Book.

The region possesses some of world's largest deposits of mineral oil, natural gas, gold, uranium etc. These republics hold oil reserves, estimated at 20 million barrels. Around seven trillion cubic metres of gas is also waiting to be tapped making Central Asia a reservoir of global energy resources of next century.

CENTRAL ASIA





**Table: 2 Central Asian Mineral Reserves**

<b>Countries</b>	<b>Mineral Resources</b>
Kazakhstan	Mineral oil, Natural Gas, Iron Ore, Bauxite, Manganese, Copper, Lead, Zinc, Gold, Uranium etc.
Kyrgyzstan	Gold, Coal, Mineral Oil, Natural Gas, Mercury, Lead, Zinc, Rare earths etc.
Tajkistan	Mineral oil, Uranium, Coal, Mercury, Lead, Zinc, Tungsten etc.
Turkmenistan	Mineral oil, natural gas, coal, copper, sulphur, salt etc.
Uzbekistan	Mineral oil, natural gas, coal, gold, silver, uranium, copper, lead, zinc etc.

Central Asia which is blessed with immense bounties of nature - the rich reservoir oil, gas and other mineral resources, but ironically, was constrained through a command - structured economy and lack of requisite infrastructure and communication network that their resources do not find access in the world market to bring prosperity and affluence to the people.

Thus, after their independence they are trying to develop themselves and working for regional - cooperation.

### **Review of the Literature**

Research on structural changes in an economy have been carried out extensively in context of Asia, Africa and Latin America but Central Asia have been devoid of ample attention of the researchers in this regard. This is,

however, not denied the importance of literature to provide a background to present research. A review of some important works can provide a good insight into existing research gap.

Pekka Sutela's (1991) in his book *'Economic thought and economic reforms in the Soviet Union'* made an attempt to present a comprehensive picture of the Soviet Union's economy before its fall and also provides a picture of reformists programmes initiated since 1985 in the Soviet Union. He also gave broader looks to the reasons responsible for the collapse of the Soviet economy.

Richard R. Nelson, T. Paul Schultz and Robert Z. Slighton (1971) in their book *'Structural Change in the developing economy: Colombia's problems and Prospects'* try to look into a multifaceted study of the Colombian economy. They attempted to understand the development process of a developing country both in breadth and depth. Although their detailed empirical analysis concentrated on Colombia, and viewed that their basic objective was not trying to explain Colombia but an attempt to gain a better understanding of development generally.

S.M. Rahman (ed.), (1998) in his book, *'Central Asia: Regional Cooperation for peace and development'* tries to look in prospects for effective integration of the Central Asian Republics towards attainment of economic progress, regional peace and harmony. He tried to review the progress of the concept of regional economic cooperation and also focusses on developing concrete modalities to transform these ideas into a practical shape.

of regional economic cooperation and also focusses on developing concrete modalities to transform these ideas into a practical shape.

Bartlomiej Kaminski (ed.), (1996), in his book '*Economic Transition in Russia and the new states of Eurasia*' tried to study various economic reforms and economic transformation initiated in Russia after break up of Soviet Union. He highlighted the Russian economy which at present is in a transitional phase.

Gulshan Sachdeva (1997) in his article "*Economic Transformation in Central Asia*" witnesses the transformation of the Central Asian economy since Soviet Union's disintegration from a centrally planned economy to a market economy by looking into processes which involve institutional, structural as well as behavioural changes.

Kaser Michael (1997), in his article "*Economic Transition in Six Central Asian Economies*" tries to look into the current situation of Central Asian economies after five years of recession since the Soviet Union's collapse. He takes a wider look in the context of price and trade liberalisation, privatisation, capital and labour movements and other economic reform initiated.

Heribert Dieter (1996), in his article "*Regional integration in Central Asia : Current Economic position and prospects*" concentrates that self-sustainable, economic development for Central Asia is not possible without a revival of refined cooperation. He thus sees that regional cooperation among Central Asian states is perfect solution to tackle the problem of economic situation prevailing after fall of the Soviet Union.

strategies undertaken for the Central Asian states must always take into account the dynamic interaction between sub-national, national, transnational, regional and international factors, movements and issues. Thus leading Central Asia to absolute self-reliance.

Aurangzeb Z. Khan (1994) in his article *"Economic Implications of Disintegration of the Soviet Union on the situation in Central Asia"* attempts to review the salient economic developments in the Central Asian Republics since 1991. He tries to look into the underlying factors responsible for the current economic predicament, recent economic trends and tries to assesses the economic reforms pursued by Central Asia states.

A.I. Belchuk (1998), in his article *"Economic Reform in Central Asian Republics"* witnesses the economic reforms initiated in Central Asia, from the Gorbachevian period to current reforms undertaken after the fall of Soviet Union. He tries to assess the reform in order to look into what went wrong with these reform in Central Asian economy.

Unal Cevikoz (1994), in his article *"A brief account of the economic situation in the former Soviet republics of Central Asia"* tries to study the effects of the disintegrating monolithic structure of Soviet Union. He studies the systematic regional underdevelopment in the former Soviet Union and Central Asia being most adversely affected by it. He reviews the economic situation that prevailed in Central Asia after the fall of Soviet Union.

## **Significance and Objectives**

In this back drop, any study regarding economic reforms especially in the given situation in Central Asian states becomes an area of wide interest with a good scope of research. Hence the present study about structural changes in Central Asian economies since dissolution of Soviet Union seems to be very fruitful and desirable.

The present study primarily tries to focus on economic reforms measures undertaken in Central Asian states after their breakup from former Soviet Union. An attempt is also made here to study the prevailing economic conditions of Central Asian states profounding the economic reforms measures initiated. The study also at the same time tries to focus on the structural changes that have been initiated in the economic reforms measures. Lastly, analysis of contribution of various sectors of economy after the initiation of structural changes, has been taken up.

## **Methodology**

The research aims at understanding the structural changes initiated by the Central Asian states in economic reform process. The main focus is on reform measures specific to various sectors and their relative contribution in the Central Asian economy. A brief comparative analysis of state policies and performances is employed regarding the process of economic reforms. The available data is analysed using percentage change method and techniques in order to get the results. Hence, the methodology is both descriptive as well as analytical in nature.

## **Sources of Information**

As the research has been drawn substantially, both from primary and secondary sources, the study is carried out through various published and unpublished printed materials. Study is mainly done with the help of limited number of Books, Journals and Research Articles available on the topic and as well as on the study area. Efforts have also been made to process and analyse the data to substantiate the analysis gathered from various published international reports.

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## **CENTRAL ASIAN ECONOMIC SITUATION AFTER SOVIET UNION'S COLLAPSE**

### **Introduction**

The formal disintegration of the Soviet Union in December 1991 and the subsequent emergence of the sovereign republics in its place, has had a significant economical and political impact across the world. Economically, the Soviet Union's centrally planned economy with its Marxist-Leninist dialect, had offered many third world countries an alternative path to economic development. It had always supported, the third world liberation movements against colonialism.

To sum up briefly, the Soviet Union had always acted as a counter force to the United States and the Western Europe. Its collapse, therefore left a void internationally - a void which has been filled by the United States by default, thus creating a single hagemon both in political as well as economic fields<sup>1</sup>.

The immediate impact of the collapse of the Soviet Union had been the emergence of the independent nation states in Central and Eastern Europe, as well as in Central Asia. These newly independent states profess to follow democratic principles of governance. However, a disturbing trend that has emerged was the growth of nationalism and xenophobic nationalism, which

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<sup>1</sup> Mahmood, Annice, "The Collapse of the Soviet Union and its Implication for Central Asia", Strategic Studies, Vol. 16(3), Islamabad, 1994, p 112.

had led to the outbreak of ethnic conflicts in several areas of the former Soviet Union.

On the economic front, the fall of the former Soviet Union has led to the demise of central planning along with its bureaucratic set up and the emergence of market economics with its reliance on the price mechanism in the allocation of resources.

After living for around seventy years under a centrally planned economic systems, the former Soviet Union's Republics of Central Asia are now suffering from the effects of a disintegrating monolithic structure. This monolithic structure, which emphasises strict central control over its fifteen subject republics and resisting, avoiding calls for decentralisation or more autonomy at the periphery, more the less aimed for balanced regional development. Yet, exploitation by the centre, of the periphery's resources had resulted in systematic regional underdevelopment in the former Soviet Union. The area most adversely affected had been Central Asia.

The former Soviet Republics of Central Asia which proclaimed their political independence in 1991, have yet to gain their economic independence<sup>2</sup>. Emergence into a political independence confronted these Central Asian states with economic problems. These states were as open as, on a world ranking, their level of income would indicate, but because their trade and payments relations had been dominantly operated from outside - by the

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<sup>2</sup> Cevikoz, Unal, "A Brief Account of the Economic Situation in the former Soviet Republics of Central Asia". Central Asian Survey. Vol 13(1) London, 1994, p 45.



planning and industrial agencies for the whole Soviet Union in Moscow - their now autonomous administrators were unused to much more diverse relationship and to controlling the transmission of external change to domestic activity. Taking place at the moment of wider nation building, it could be described as an exogenous management shock. Looking at the structural characteristics of the former Soviet economy, one can readily observe to distinct role of interdependence. Seventy years of Soviet experience in Central Planning established a certain regional pattern of production capacity which created a mutually beneficial system of economic relations. This set of relations has become so crucial for the former Soviet Republics that a rapid change would increase risks and instabilities and would jeopardise their economies. Not surprisingly, therefore, some Central Asian leaderships favour a gradual adjustment process to reduce risks of unpredictable social, economic and political consequences.

The breakup of the Soviet Union had led to severe economic dislocation. Central planning from Moscow had created gigantic production units which supplied out to all parts of Soviet Union. Not only that but different areas of the Soviet Union specialised in the production of different commodities. Thus the economy inherited by the Soviet Union caused severe damages to the economy, production and commerce declined drastically, causing economic disruptions and hyper inflation<sup>3</sup>.

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<sup>3</sup> Mahmood Annice, Op. Cit. p 113.

Throughout the period of central planning, the strong emphasis on industrialisation dictated a great degree of product specialisation which was reflected in a high level of monopolisation of industry.

Consequently, this high level of monopolisation led to an intensive interregional exchange of goods among the former Soviet Republics, and so inter-republican trade had become a major factor in their interdependence.

In fact, a close look at the export and import figures of these former Republic of Soviet Central Asia in the table 1.1( fig. 1.1 & 1.2) below show that only a small part of their general economic relations have been with the regions outside the former Soviet Union.

**Table 1.1**

**Proportion of Inter Republican Exchange and Foreign Imports/Exports in Republication Trade in 1991 (percentages)**

	Imports		Exports	
	Inter-republican exchange of home made goods	Foreign imports	Inter-republican exchange of home made goods	Foreign exports
<b>Kazakhstan</b>	83.5	16.5	91	9
<b>Kyrgyzstan</b>	80	20	98	2
<b>Tajikistan</b>	87	13	86	14
<b>Turkmenistan</b>	86	14	92	8
<b>Uzbekistan</b>	86	14	85	15

Source: Cevikoz Unal, "A Brief Account of the Economic Situation in the former Soviet Republics of Central Asia" Central Asian Survey , Vol.13(1) , London, 1994,p.46.

Figure 1.1

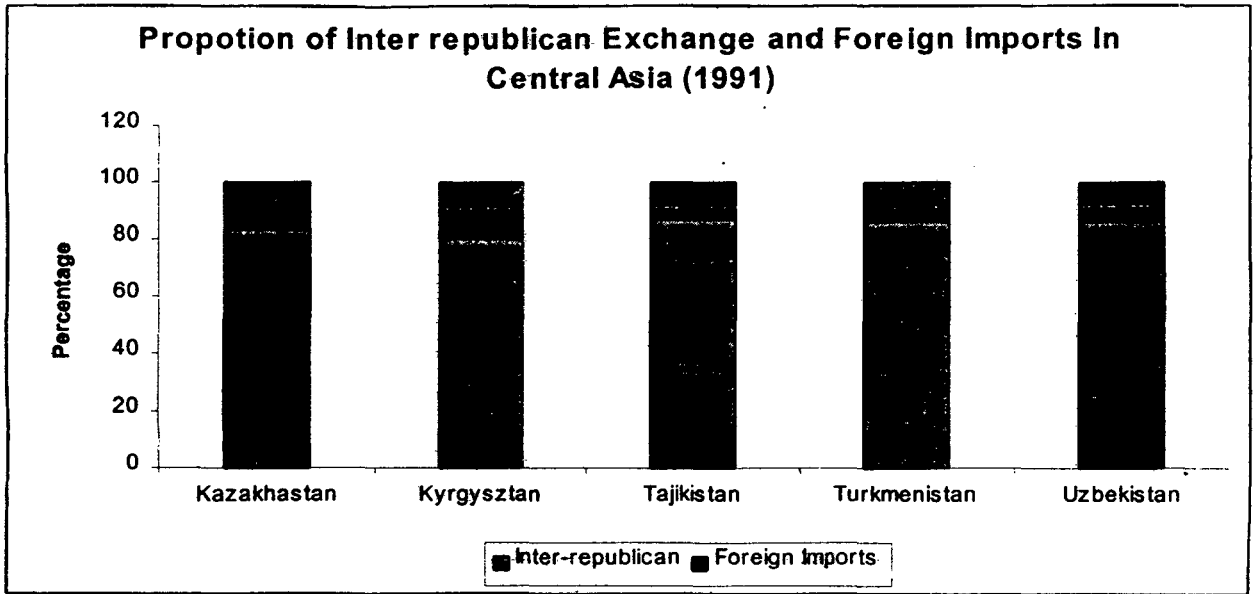
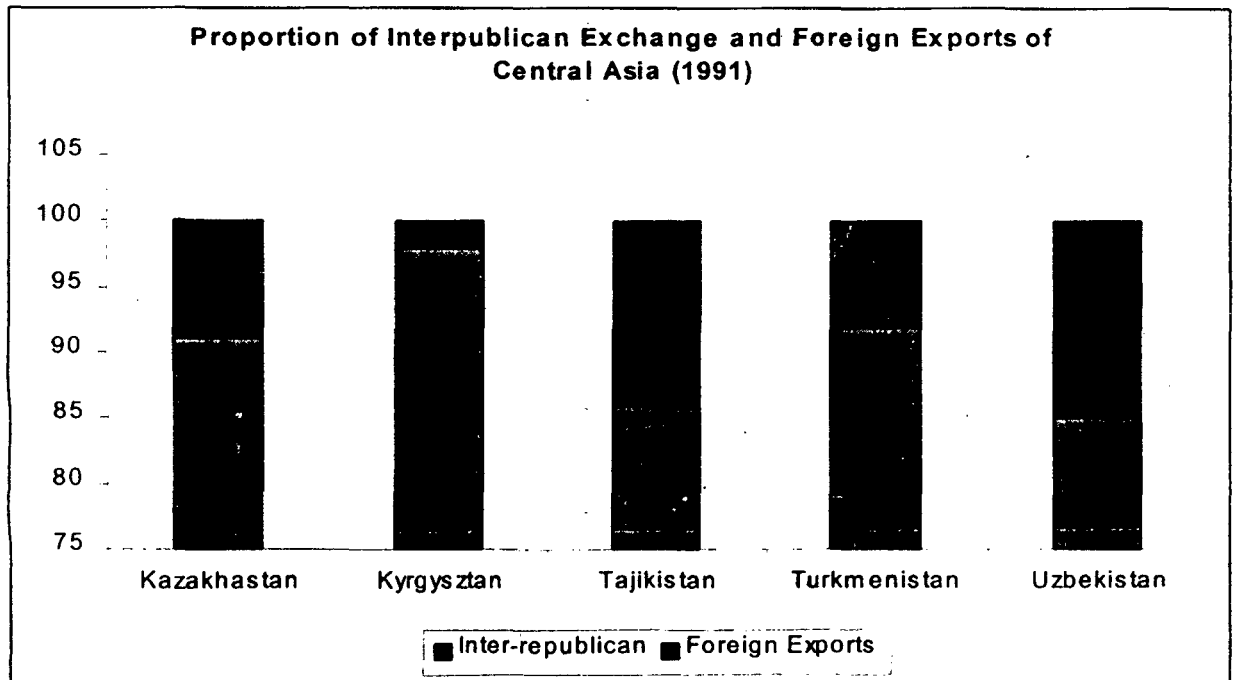


Figure 1.2.



Thus the volume of inter-republican trade, on the other hand is a strong indicator of the degree of economic integration of the ex-Soviet Republics, especially in Central Asia.

### **Implications of Economic Reforms in the former Soviet Union.**

The sorry state of affairs of the economy in the Central Asian states since Soviet Union's dissolution has its origins in a number of factors, notable of which were the decline in national economic output and trade as well as monetary developments in the region comprising the former Soviet Union, both prior and subsequent to the Soviet Union's disintegration<sup>4</sup>.

The developments such as decentralisation and liberalisation measures initiated in the Soviet Union in the latter half of the 1980's gave enterprises substantive leverage in fixing output prices, investment and wage levels, besides giving employees greater control over management. Upward pressure on wages consequently increased substantively at the expense of investments in real terms, which, declined by about one third in cumulative terms prior to the Soviet Union's formal disintegration.

The absence of a developed market for goods, including production inputs produced outside the state sectors, the lack of a market for the transport of goods, and the hoarding of goods by enterprise as shortages became apparent, further accelerated and aggravated the decline in the output.

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<sup>4</sup> Khan, Aurangzeb, "Economic Implications of the Disintegration of the Soviet Union on the Situation in Central Asia", Strategic Studies, Vol.16(3), Islamabad, 1994, p 97.

The drastic decline in the trade subsidies subsequent to the Soviet Union's disintegration have reduced the incentive for the inter-republican trade, mainly in the energy-intensive industries, by boosting the costs of energy and transportation. Inter-republican trade was furthermore hindered by the imposition of export controls by the Republican governments to shore up the availability of goods becoming domestically increasing scarce. Inter-republican trade is established to have declined by between 15 percent to 20 percent in 1991 and 25 percent to 40 percent in 1992.<sup>6</sup>

The decline in production and trade was mutually reinforcing given the high degree of economic inter-dependency and economic specialisation which prevailed all over parts of the former Soviet Union.

After the Soviet Union's disintegration, the newly formed Republics decided to remain within the rouble zone, hoping to reap in the multifarious benefits normally associated with the membership of a single currency area. In practise, membership of the rouble zone aggravated the economic woes of the Republics. Although a substantive degree of monetary and fiscal policy coordination between the member states was foreseen, little was accomplished in practise and monetary policy was determined virtually exclusively by Moscow.

By February 1992, restrictions on approximately four-fifths of wholesale prices and 90 percent of consumer prices were lifted in Russia. Inflation rose phenomenally, fueled further by an enormous expansion in domestic credit

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<sup>6</sup> Khan, Op. Cit. p 98.

The Soviet Government aggravated the situation by adding fuel to fire by resorting to severe compressions through the imposition of quantitative import restrictions on several products to save the foreign exchange which it required for servicing its external debts. In 1991 alone, Soviet Union's imports from Eastern Europe plummeted by almost two-thirds while from the OECD states the decline was a more modest one-third.

At the inter-republican level, trade was disrupted by the change in the mode of the Russian payments systems in July 1992. Under this new system, enterprises purchasing or buying goods from other enterprises will be required to pay the payments in advance prior to receipt of the goods purchased, totally contrasting with the earlier payment system under which the goods were paid subsequent to the delivery of the goods. This change in the payment systems consequently made it very difficult for the enterprises trading within Russia and within the framework of overall republican to finance trade through the accumulation of inter-enterprise arrears.

Inter-Republican trade was further strained by the curtailment of the trade subsidies by the Russians and some of the other Republics. Prior to 1991, the prices of the goods in inter-republican trade were in general not reflective of their opportunity costs. Russia and Turkmenistan for example, directly subsidised other Republics by charging prices for their energy supplies substantially below prevailing world market price levels.<sup>5</sup>

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<sup>5</sup> Khan, Op. Cit. P 98.

and money supply, as Republican governments encouraged their banks to accelerate domestic credit expansion as such as possible to enable local enterprises to import increasingly scarce items from other Republics to make up for the shortfall. Consequently, inflationary impulses were transferred between the Republics. Rising inflation eroded real income, savings, and return on financial asset as well as living standards and demand, leading to a further decline in output and encouraging barter settlements to the detriment of economic efficiency.

### **Macro-economic Trends**

The decline in inter-republican trade, disruptions in the payment system, reductions in trade subsidies, price liberations, unbridled monetary expansion and currency reforms in Central Asia have, unvarying degrees, had devastating repercussions for the economies of the Central Asian states.

Table 1.2 represents, the economic performance for the Central Asian states for 1991 after Soviet Union dissolution.

**Table 1.2**  
**Economic Performance of the Central Asian States (1991)**

<b>Countries</b>	<b>National Income in percent</b>	<b>Industrial production in percent</b>	<b>Consumer goods output</b>	<b>Retail trade turnover</b>	<b>Paid services</b>	<b>Wholesale industrial price index</b>
<b>Kazakhstan</b>	-14.2	-14.8	-21.0	-38.5	-48.0	2469
<b>Kyrgyzstan</b>	-26.0	-26.8	-36.0	-67.0	-42.0	1764
<b>Turkmenistan</b>	-18.3	-16.7	-14.0	-38.0	-33.0	1094
<b>Tajikistan</b>	-31.0	-24.3	-28.0	-72.1	-68.0	1423
<b>Uzbekistan</b>	-12.9	-6.2	100.4	-31.3	-42.0	1396

Source: Mahmood Annice, "The Collapse of the Soviet Union and the Implication for Central Asia" Strategic Studies, Vol. 16(3), Islamabad 1994.

Thus the figure 1.3 shows the poor economic performance of Central Asian states as reflected by negative growth of national income and industrial production .

Figure No. 1.3

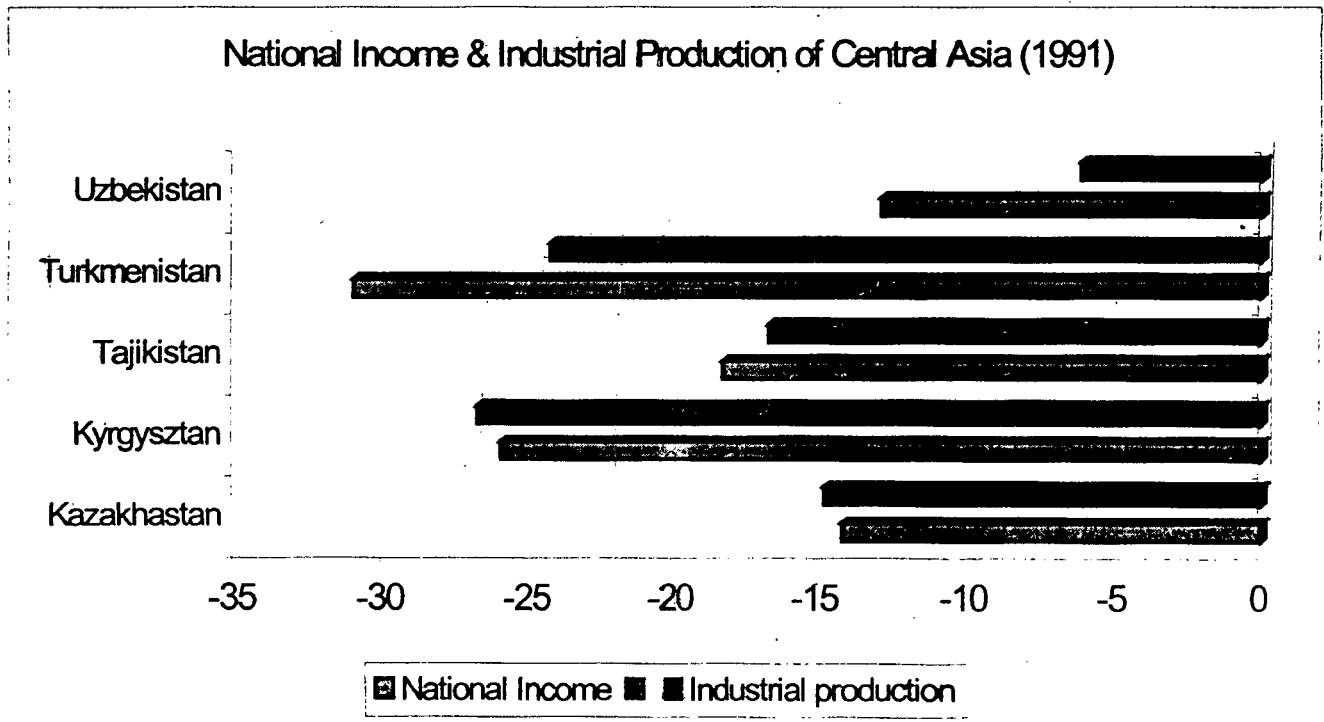


Table 1.3 and figure 1.4 represent trends in GDP growth rates for Central Asian states for the period 1991-1994. It shows, production and effective demand plummeted in these economies because the Central Asian states were thus, as open economies, sensitive to exogenous shock, but the shock at the time of their independence was stronger.



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**Table 1.3**

**GDP Growth Rates in the Central Asian States 1991-1994  
(Rate of growth in percent )**

	1991	1992	1993	1994
<b>Kazakhstan</b>	-6.8	-13.0	-15.6	-25.0
<b>Kyrgyzstan</b>	-9.1	-15.8	-16.3	-26.0
<b>Tajikistan</b>	-8.7	-30.0	-27.6	-15.0
<b>Turkmenistan</b>	-5.0	-5.4	-5.0	-6.3
<b>Uzbekistan</b>	-0.5	-11.1	-2.4	-4.5

Source: The World Development Report, 1996, Various Issues of Economics of Transition (UK), and EBRD, Transition Report Update, 1996.

Thus as mentioned earlier the grim growth rates of GDP in the year 1991, 1992 and 1993 in Central Asia can be attributed to disintegration of Soviet Union.

The liberalisation shock led to rapid inflation in Central Asian states. As shown in the table 1.4 , Kazakhstan where inflation was to the tune of 1860 virtually identical to Russia mainly because of retail interchanges was considerable between them. By the imposition of price controls and a special purchase constraining scheme for consumer goods, Uzbekistan had the lowest inflation in the initial 'shock' year, but it was just temporarily hidden. Consumer price inflation rose up to the four digits at least for three years in Kazakhstan and for two years in Turkmenistan and Tajikistan. Inflation came down to two digits only in following years (Fig. 1.5).

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Figure : 1.4

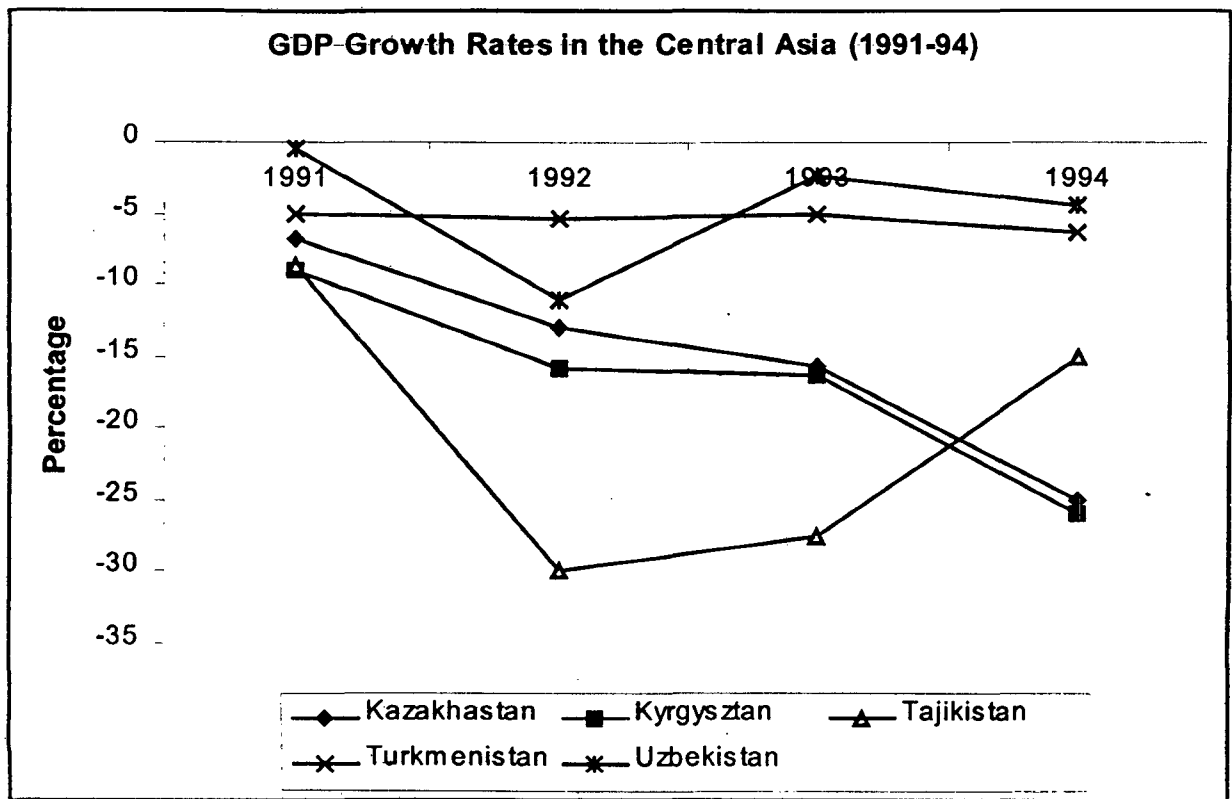


Table1.4

**Consumer Price Inflation in the Central Asian States 1991-1994**

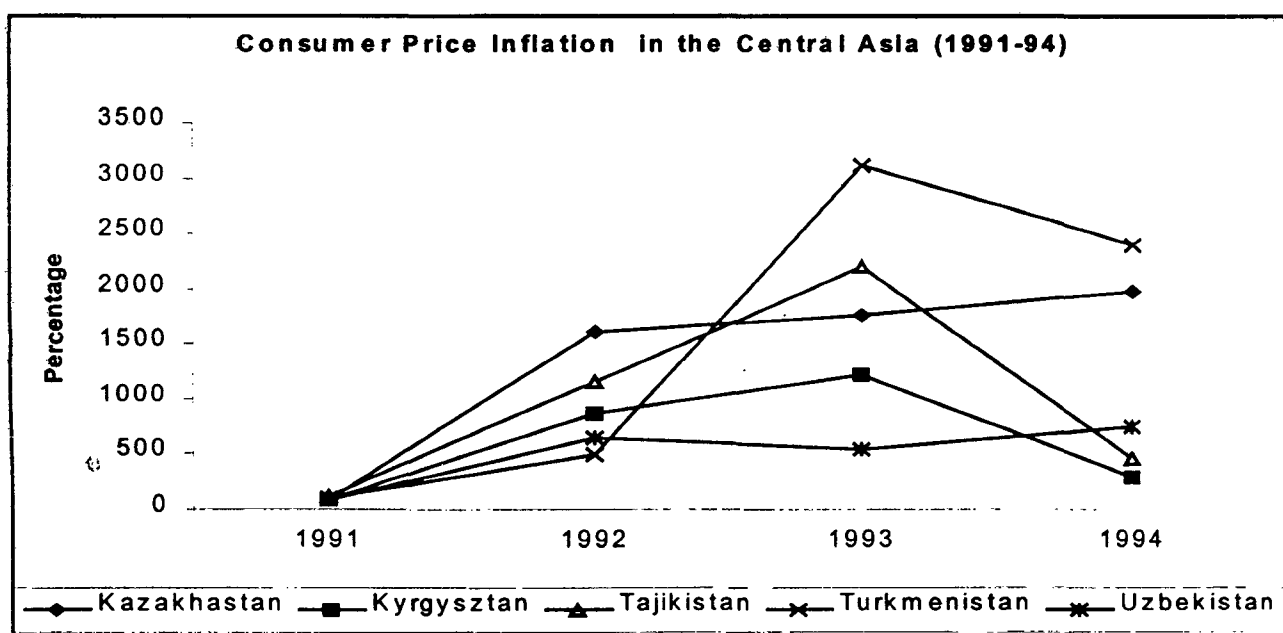
	1991	1992	1993	1994
<b>Kazakhstan</b>	91	1610	1760	1980
<b>Kyrgyzstan</b>	85	855	1209	280
<b>Tajikistan</b>	112	1157	2195	452
<b>Turkmenistan</b>	103	493	3107	2400
<b>Uzbekistan</b>	82	645	534	746

Source: The World Development Report, 1996, various issues of Economics of transition (UK), and EBRD, Transition Report Update, 1996.

As mentioned earlier, substantially higher inflation rates in Central Asia for the years 1991,1992 and 1993 indicate that poor economic situation prevailed after Soviet Union's collapse and aggravated in the years subsequent.

Until the establishment of separate currencies during 1993, rouble devaluation was a factor in these inflation, but a more potent force was monetisation of fiscal deficits.

Figure : 1.5



**Table 1.5**  
**Budget Disequilibrium in Relation to GDP and General Government**  
**Expenditure in the Central Asian Economies, 1992-1994**

	1992	1993	1994
<b>Kazakhstan</b>			
Percent of GDP	-7	-1	-7
Percentage of expenditure	-23	-4	-29
<b>Kyrgyzstan</b>			
Percent of GDP	-17	-14	-8
Percentage of expenditure	-51	-46	-30
<b>Tajikistan</b>			
Percent of GDP	-31	-23	-5
Percentage of expenditure	-54	-86	-12
<b>Turkmenistan</b>			
Percent of GDP	-13	-1	-1
Percentage of expenditure	-31	-3	-9
<b>Uzbekistan</b>			
Percent of GDP	-18	-10	-6
Percentage of expenditure	-37	-24	-19

Source: Economic Survey of Europe in 1996-1997, Economic Commission for Europe, UN, Geneva.

As the table 1.5 indicates, fiscal deficits were as large as 17 to 31 percent of GDP in the first full year of independence. Kazakhstan was in single figures 7

percent and there was a surplus on such outlays and revenue as the Turkmen government chose to contribute in the central budget.

In 1993 , in war torn Tajikistan, the deficit was almost as large as central budgetary expenditure , but by 1996 was in the same range as Kyrgyzstan and Uzbekistan ( respectively 6 & 8 percent of GDP) . Kazakhstan had kept its deficit at 3 percent of GDP for two years ( Figs. 1.6, 1.7 & 1.8 ).

Thus, in the first years of running their own currency, the Central Asian states were in comparison with more developed transitional states running bigger deficits to spend proportionally more.

Figure : 1.6

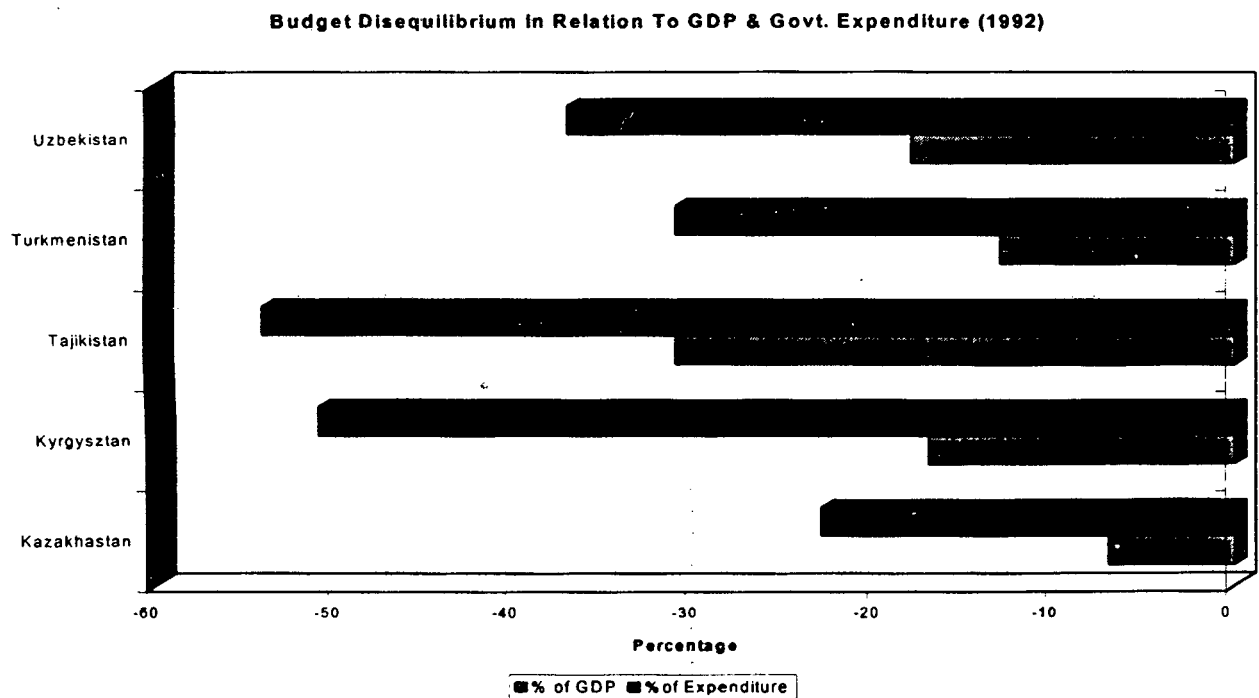


Figure : 1.7

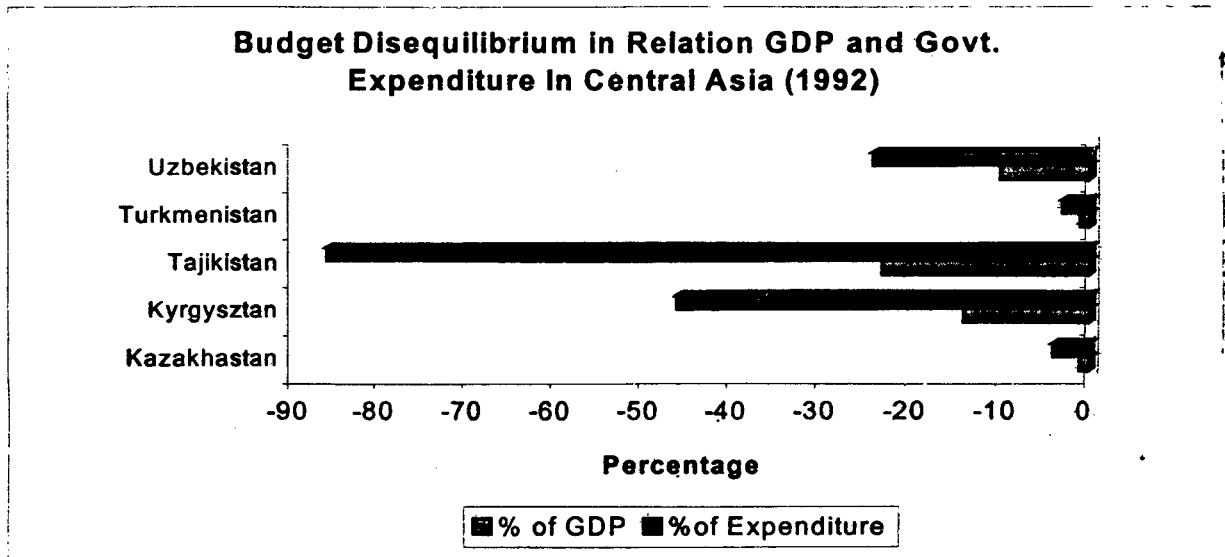
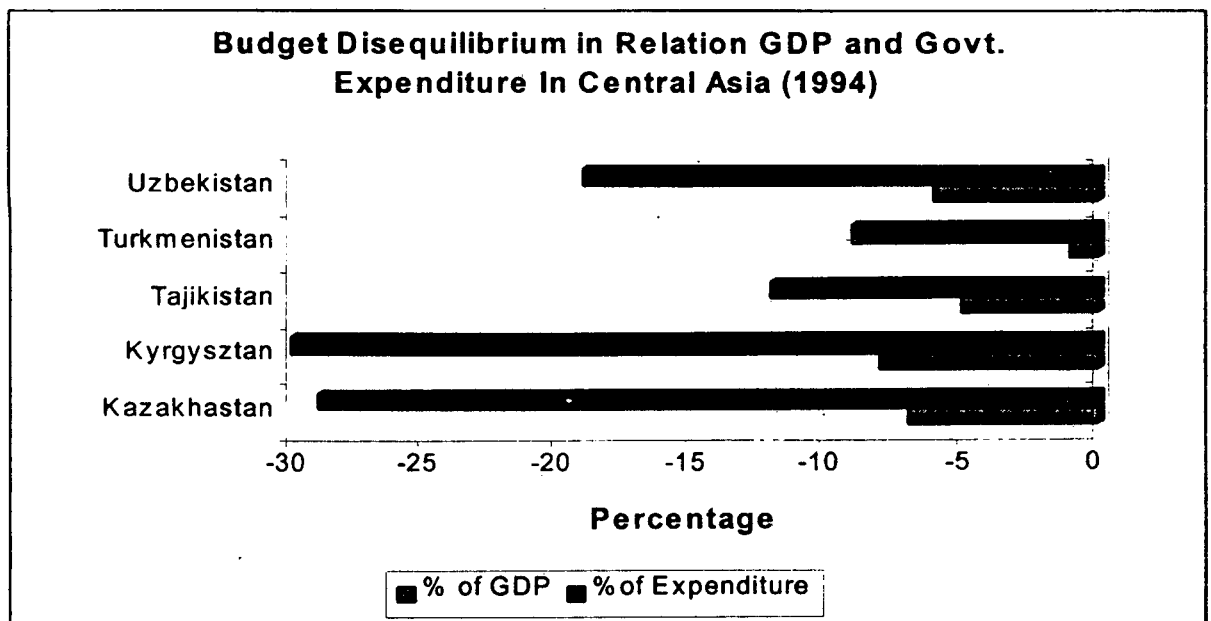


Figure : 1.8



in general, picture outlined above for the Central Asian countries appears to be bleak, if economic analysis for the Central Asian states taken as a whole.

Country wise analysis may provide a different picture for various reasons:

### **Kazakhstan**

After dissolution of Soviet Union in 1991, according to estimates by the World Bank, Kazakhstan's Gross National Product (GNP), measured at average 1989-91 prices, was US\$ 41,691 million, equivalent to US\$ 2,470 per head. Kazakhstan's Gross Domestic Product (GDP) fell by 25 percent between 1990 and 1992. In 1990 net material product (NMP), measured at current prices, was estimated to be 34,961 million roubles. In the following year NMP decreased, in real terms, by an estimated 9.6 percent compared to 1990, Overall investment in 1992 reportedly fell by approximately 40 percent after a decline of 15 percent in 1991<sup>7</sup>.

Agriculture contributed 36.5 percent of NMP in 1991. There are large areas of land available for agriculture and Kazakhstan is a major producer and exporter of agricultural products.

Industry, excluding construction contributed 30.7 percent of the NMP in 1991. Parts of Kazakhstan were highly industrialised, and the most important sectors were associated with the transformation of raw materials, including metal-processing, fuel, power, chemicals, machine-building, textiles and food

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<sup>7</sup> The Europa World year book, Vol. II, Europa Publ. Ltd. London , 1998, p 1639.

processing. In 1992 industrial production declined by 14.8 percent compared with 1991<sup>8</sup>.

In 1991 Kazakhstan recorded a trade deficit of 4,527 million roubles, and there was a deficit of 2,928 million roubles on the current account of the balance of payments. Kazakhstan's imports from non-republican countries declined by 40 percent between 1988 and 1992, while exports in 1991 fell almost three-fifths over the preceding year before increasing substantially in 1992<sup>9</sup>. Kazakhstan has endeavoured to reduce its trade dependence in other former Soviet Union's Republics. During 1992 the People's Republic of China became a major exporter to Kazakhstan, and it is currently Kazakhstan's largest non-republican trading partner. In the early 1990's the Kazakh government sought to increase the share of exports purchased in convertible currencies.

The 1992 budget proposals projected a deficit of 10,705 million roubles. Kazakhstan's share of the former Soviet Union's total external debt was estimated to be some US\$ 2,500 million in 1992. In 1991 the estimated average annual inflation was 82.9 percent. Prices in Kazakhstan rose dramatically since 1991. Estimates for 1992 suggest an eight and half fold to fifteen fold increase in prices. Real income fell by 20 percent in real terms in 1991 with larger decline in 1992 and 1993. Kazakhstan recorded a fiscal deficit of 8 percent in GDP terms in 1991<sup>10</sup>.

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<sup>8</sup> The Europa. Op. Cit. p 1639.

<sup>9</sup> Ibid. p 1639.

<sup>10</sup> Ibid. p 1639.



Following independence, Kazakhstan had been beset by extensive economic difficulties similar to those prevalent in other former republics of the Soviet Union, largely resulting from the collapse of the Soviet Central planning and internal trading systems. Furthermore, as a result of Kazakhstan's decision to delay the introduction of its own national currency and to remain within the rouble zone, the country's economy was considerably influenced by developments in Russian Federation and the other republics still using the rouble. One particularly serious consequence of this had been a dramatic rise in the annual rate of inflation. However, Kazakhstan's prospects for eventual economic recovery and prosperity are considered to be highly favourable, owing to the country's immense, and as yet largely unexploited, mineral reserves.

### **Kyrgyzstan**

After the fall of Soviet Union in 1991, according to estimates by the World Bank, Kyrgyzstan's gross national product (GNP), measured at average 1989-91 prices was US\$ 6,900 million, equivalent to US\$ 1,550 per head. Kyrgyzstan's economy was particularly severely hit by the disruption in inter-republican trade. Its GDP fell by an estimated 26 percent in 1992 alone. According to preliminary official figures, net material product (NMP), measured at current prices, was estimated to be 11,152 million roubles in 1991. In that year NMP in real terms decreased, by an estimated 2 percent<sup>11</sup>.

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<sup>11</sup> The Europa., Op. Cit., p 1720.

Agriculture contributed about 36 percent of NMP in 1991. By tradition, the Kyrgyz are pastoral nomadic people, and the majority of the population resided in rural areas. Approximately one-third of the labour force was employed in Agriculture. In 1991 agricultural production was estimated to have declined by 8 percent compared with the previous year<sup>12</sup>.

Industry, excluding construction, contributed some 45 percent of NMP in 1991. The most important sectors were metallurgy, agricultural and other machinery, electronics and instrument, textiles and food processing. It was estimated that industrial production decreased by more than 20 percent in 1992, compared with 1991<sup>13</sup>.

Kyrgyzstan in particular has experienced severe import compressions, since its independence. Its imports from non-republican states, which has peaked at around US\$ 1.5 billion in 1990, plummeted to just US\$ 27 million in 1991. In 1991 Kyrgyzstan recorded a visible inter-republican trade surplus of 958 million roubles, and there was a current account surplus of 2886 million roubles. In the same year, however, there was a visible foreign trade deficit of US\$ 535 million and a current account deficit of US\$ 590 million<sup>14</sup>. Following independence, the overwhelming majority of Kyrgyzstan's foreign trade continued to be conducted with former republics of the Soviet Union. On the other hand Kyrgyzstan's export volume increased significantly in relative terms, with exports tripled in the first half of 1993, as compared to 1991 level.

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<sup>12</sup> The Europa, Op. Cit. p 1720.

<sup>13</sup> Ibid., p 1720.

<sup>14</sup> Ibid., p 1720.

In the early 1990's the principal exports were non-ferrous metals and minerals, woolen and other textile goods, agricultural and food products, electric power, and electronic and engineering products. The principal imports were petroleum and natural gas, iron and steel, chemicals and pharmaceuticals, engineering products, construction materials and food products.

Kyrgyzstan's budget deficit in 1992 was estimated 5,086 million roubles i.e. 14.7 percent of GDP. Kyrgyzstan's share of the former Soviet Union's total external debt was estimated to be approximately 1percent. In 1991, the average annual rate of inflation was 88.2 percent and was estimated to have risen eleven fold in 1991, and fifteen fold on an annualised basis in the first half of 1993<sup>15</sup>. Since 1991, wages have declined steadily in real terms; in 1993 they rose on average at about half the inflation rate.

The overall economic decline that Kyrgyzstan experienced in 1991 was aggravated by the disintegration of the Soviet Union. The resultant disruptions in economic links between the former Soviet Union's Republics have particularly affected Kyrgyzstan's decision to retain the rouble as its national currency had meant that the country's economy was inevitably linked to developments in the Russian Federation and the other republics remaining in the rouble area.

The introduction of price liberalisation measures in Kyrgyzstan in 1991 and 1992, in common with policies implemented in the Russian Federation and

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<sup>15</sup> The Europa, Op. Cit., p 1720.

other republics had led to a serious escalation in the rate of inflation. Unemployment, which was reported to be negligible in 1990, also increased greatly in 1991-92. Reflecting the general economic decline, widespread shortage of basic commodities were reported throughout the country, with majority of the population said to be living in poverty. In 1992 Kyrgyzstan's economic performance was estimated to be the lowest among the CIS member states.

### **Tajikistan**

After the collapse of the Soviet Union in 1991, according to the official estimates Tajikistan's net material product (NMP) was 9,616.8 million roubles, reportedly the lowest among all the former Soviet Republics, which, contributed a decrease, in real terms, of 8.7 percent compared with 1990., Tajikistan's economy contracted by 21 percent in GDP terms in 1991, which was followed by a 20 percent decline in the first half of 1992. Capital investment plummeted by 63 percent in 1991<sup>16</sup>.

Despite the fact that only 7 percent of Tajikistan's land is arable, the Tajik economy is predominantly agricultural. In 1990 agriculture and forestry contributed 38.8% of NMP and provided 42.9 percent of employment. The principle crop was cotton, followed by grain, vegetables, fruits. Approximately 75 percent of country's arable land was irrigated. In 1991 agricultural NMP decreased by 9.9 percent compared with the previous year<sup>17</sup>.

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<sup>16</sup> The Europa, Op. Cit., p 2752.

<sup>17</sup> Ibid., p 2752.

In 1990 industry and construction contributed 43.2 percent of NMP and provided 21.7 percent of employment. There were few heavy industries, such as mineral extraction and power generation. Light industry concentrates on food processing, textiles and carpet making. In 1991 industrial NMP declined by 2.9 percent, compared with 1990, and there was a reported decline of 23 percent in 1992<sup>18</sup>.

In 1990 Tajikistan recorded a visible trade deficit of 1,441 million roubles. In the following year, however, according to preliminary figures, there was a trade surplus of 512 million roubles and a surplus of 296 million roubles on the current account of the balance of payments<sup>19</sup>. Following independence, besides former Soviet Union's republics, Tajikistan sought to expand trade with neighbouring countries outside the rouble area, including Afghanistan, Pakistan, Iran and the People's Republic of China. The principle exports were aluminium, raw cotton, textiles, fruit and vegetables, silk and marble and the principle imports were energy requirements, manufactured consumer goods and food products.

The 1992 budget projected a deficit of 1,103 million roubles. Tajikistan's share of the total external debt of the former Soviet Union was set at 0.8 percent i.e. US\$ 495 million. In 1991 consumer price increased by an estimated annual average of 102.9 percent. In Tajikistan, inflation in 1992 rose almost fifteen fold over its 1991 level, while wages increases, as in other Central Asian

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<sup>18</sup> The Europa, Op. Cit. p.2752.

<sup>19</sup> Ibid., p 2752.

states, lagged behind in inflation. Tajikistan fared worst, recording a fiscal deficit of 38 percent of GDP which was projected to 54 percent for 1993.

The poorest of the Republics of the former Soviet Union, Tajikistan experienced an economic decline, beginning in the mid 1980's which was aggravated by the country's rapid population growth rate. Following the collapse of the Soviet Union in 1991, the country was adversely affected by the widespread disruptions in the former Soviet trading systems, resulting in short falls of urgently needed raw materials and other supplies essential to the economy, and in the ensuing closure of many enterprises. Unlike other former Soviet Republics, during 1992, the Tajik government was slow to implement reforms designed to effect a transition to a market economic system.

Economic development was further hampered by the Civil war which broke out in 1992. Apart from the devastating human cost, the war was estimated to have cost more than 300,000 million roubles in economic losses. Any economic recovery in Tajikistan is expected to take many years, and will depend on the Government's success.

### **Turkmenistan**

After the dissolution of Soviet Union in 1991, according to estimates by the IMF, Turkmenistan's gross domestic product (GDP), measured at current prices was 18,591 million roubles, equivalent to about 5,000 roubles per head. GDP declined by an estimated 18 percent in 1992 following a 1 percent decline in the previous year. In 1991 net material product (NMP) was

estimated to be 13,771 roubles a decline, in real terms; of an estimated 0.6 percent compared with 1990<sup>20</sup>.

Turkmenistan's economy is predominantly agricultural and in 1991 agriculture contributed an estimated 46.4 percent of NMP and employed 42.6 percent of the working population. In 1991, contribution of agriculture in NMP decreased by an estimated 1.6 percent compared with the previous year<sup>21</sup>.

Industry and construction contributed an estimated 42 percent of NMP in 1991, when some 20 percent of the working population were employed in the sector. In 1990 textile production accounted for some 36 percent of the value of total industrial production, while a further 30 percent was accounted for by the electricity generating, chemical, gas and petroleum processing industries. In 1991, according to preliminary figures, industrial NMP increased by 4.4 percent, compared with 1990 following declines of 17.9 and 22.8 percent in 1989 and 1990 respectively<sup>22</sup>.

In 1991, according to official estimates, Turkmenistan recorded a visible surplus of 1,095 roubles in trade conducted with other republics of Soviet Union, while there was a deficit of 197 million roubles in other trade. In the late 1980's Turkmenistan's trade was conducted exclusively with other Soviet Union's republics, although this share declined to about 84 percent in 1991<sup>23</sup>. Following independence, the majority of Turkmenistan's trade continued to be oriented towards the former Soviet Union.

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<sup>20</sup> The Europa, Op. Cit., p 2859.

<sup>21</sup> Ibid., p 2859.

<sup>22</sup> Ibid., p 2859.

<sup>23</sup> Ibid., p 2859.

The 1992 budget projected a deficit of 4,187 million roubles, Turkmenistan was assigned 0.7 percent of the former Soviet Union's total external debt<sup>24</sup>. Turkmenistan's inflation rate increased ten folds in 1992 subsequent to the government's relaxation of price controls on all except socially "significant" goods. Prices in general tend to be more controlled in Turkmenistan than in most other Soviet Republics. Wage hikes lag behind inflation, despite the government's attempts to minimise the social repercussions of eroding real income by offering bonus concurrent with price increase. Turkmenistan recorded a modest fiscal deficit of 4.6 percent of GDP in 1992 attributed largely to increased revenues from its energy exports. In 1991 consumer prices increased by an estimated annual average of 90.4 percent<sup>25</sup>.

Turkmenistan, one of the poorest republics of the former Soviet Union, it had experienced considerable economic decline even before the dissolution of the Soviet Union in 1991. The ensuing disruptions in inter-republican trade adversely affected Turkmenistan's industrial sector, which is heavily reliant on imported finished and intermediate goods. However, in 1991 overall economic decline was less severe than in many other former republics of the Soviet Union, owing to an increase in petroleum and cotton processing as well as in the production of the consumer goods.

Prospects of future economic development in Turkmenistan was expected to be based on exploitation of country's considerable natural resource resolve.

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<sup>24</sup> The Europa., Op. Cit. p 2859.

<sup>25</sup> Ibid., p 2859.



## Uzbekistan

After the collapse of the Soviet Union in 1991, according to estimates by the \* World Bank, Uzbekistan's gross national product (GNP), measured at average 1989-91 prices, was US\$ 28,255 million, equivalent to US\$ 1,350 per head. Real GDP declined by 9.5 percent in and 5.3 percent in 1993. In 1991 Uzbekistan's net material product (NMP) measured at current prices, was 45,963.1 million roubles, a decline, in real terms, of 0.9 percent compared with 1990<sup>26</sup>.

Agriculture in 1991 contributed 43.2 percent of NMP and employed 40.6 percent of the working population. Uzbekistan was the fourth largest producer of cotton in the world and it accounted for more than 40 percent of the total value of total agricultural production. Private farming was legalised in 1992. In 1991 agricultural NMP declined by 5.3 percent, compared with the previous year<sup>27</sup>.

In 1991, industry contributed 43.8 percent of NMP and provided 23.0 percent of employment and industrial NMP in 1991 increased by 11.5 percent, compared with 1990<sup>28</sup>.

In 1990 Uzbekistan recorded a visible trade deficit of 6,493 million roubles. In that year the majority of Uzbekistan trade was conducted with other republics of the Soviet Union. Following the collapse of Soviet Union, Uzbekistan has

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<sup>26</sup> The Europa, Op. Cit., p 3147.

<sup>27</sup> Ibid., p 3147.

<sup>28</sup> Ibid., p 3147.

sought to expand its economic links with non-traditional trading partners. Consequently its trade with other former Soviet Republics fell sharply in volume terms. China is Uzbekistan's largest trade partner outside the former Soviet Union, and seven trade agreements were signed with regional states including ECO member states Turkey, Pakistan & Iran.

In 1992 budget projected a deficit of 11,500 million roubles. In late 1991 Uzbekistan was assigned 3.3 percent of the former Soviet Union's total external debt<sup>29</sup>. However it refused to accept this obligation and in late 1992 Uzbekistan's share of the debt was transferred to the Russian Federation.

Apprehending widespread social unrest, the Uzbekistan government endeavoured to restrain inflation by avoiding extensive price liberalisation undertaken in other republics, and by compensating for the growing decline in real income through coordinated wage and price hikes. Uzbekistan's budget deficit in 1992 was estimated at 11 percent of GDP. In 1991 retail prices increased by an annual average of 82.2 percent<sup>30</sup>.

The collapse of the Soviet Union in 1991 and the manifold economic problems that ensued most particularly the wide spread disruption in the former Soviet trading system - did not initially affect Uzbekistan as adversely as many other republics. This was largely due to the country's near self sufficiency in energy resources and agricultural products as well as confined demand for its exports of raw material. However, the comparatively small decrease in overall NMP in 1991 was reportedly followed by a far sharpen

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<sup>29</sup> The Europa., Op. Cit. p 3147.

<sup>30</sup> Ibid., p 3147.

decline in 1992, as shortage of primary products and breakdown in inter-republican trade became more acute.

### **Conclusion**

Thus the newly emerged independent states of Central Asia are faced with an extremely difficult and complex economic situation. The situation is characterised by: firstly inherited economies which have been developed in an unbalanced manner, and require immediate sectoral and spatial diversification; secondly all of them were experiencing sharp fall in production, consumption, monetary and financial disequilibrium, a deteriorating employment situation, and prices rising faster than incomes resulting in more and more people becoming impoverished; thirdly people's expectation were rising high and faster.

## ***ECONOMIC REFORMS IN THE CENTRAL ASIAN STATES AFTER INDEPENDENCE***

### **Introduction**

Central Asian States of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan are richly endowed with human and natural resources. These countries have vast deposits of oil, gas, ferrous and non-ferrous metals, rare minerals and hydraulic resources. They also have a large and growing educated workforce, though the shortage of skilled labour remains in a problem.

The task of economic reforms in these Central Asian states had been made highly complex and extremely difficult not only by the inherited historical legacy in the form of lopsided economic development but also by the sharp deterioration and deepening economic crisis in these states since the disintegration of the Soviet Union. The economic reforms are complicated because of their small size and the location of these states – all of them are landlocked without access to seaports.

In each Central Asian state there are enough reasons for popular disturbances originating from socio-political and socio-economic problem. Reform measures, whether radical or gradual in nature, will always affect the structure of these societies anyway and will disturb the privileged status of several interest groups. But reform measures will also stimulate the

democratic restructuring of these societies and will enhance economic opportunities<sup>1</sup>.

Thus the prospects of economic reforms and economic stabilisation were not bleak, the Central Asian states had much in common which would greatly facilitate their comprehensive effort for economic reforms.

From an economic perspective, despite significant individual differences, the Central Asian states were in a comparable positions at the time of Soviet Union's dissolution. None of these state possessed a definite competitive edge over the other state of the region. Therefore, there was no reason to expect that integration process among themselves would lead some of them to a significant decrease in wealth, with one sides benefits accruing to the remaining states.

Despite a certain amount of industrial production, the Central Asian states were very much dependent on primary goods and their exports at the time of their independence. The building of the capacity to process these raw materials at least in an initial production state, would greatly facilitate the economic reforms process with in the individual state.

It is highly unlikely that the economic reform process and economic transformation processes in the individual countries can be successfully completed within a short time period, i.e., prior to the beginning of the new millennium. The earliest time at which we can expect Central Asian states to

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<sup>1</sup> Cevikoz Unal: "A Brief Account of the Economic Situation in the former Soviet Republics of Central Asia". Central Asian Survey, Vol. 13 (1), London, 1994, p. 48.

reach an economic position that can be considered stable is the second decade of the 21<sup>st</sup> century. However, especially because of this prolonged transition phase that can be expected to extend beyond the year 2000, the course must be set for creating a sustainable economic structure<sup>2</sup>.

The struggle within the former Soviet leaderships over the approach to economic reforms has had repercussions on the decisions of the individual republican leaderships. Therefore, the leaders of the newly - independent Central Asian states have to take urgent steps to overcome the inherited economic problems through diversification in the industrial and the agricultural sectors and the development of the infrastructure even while reforming the economic system.

The urgent tasks of economic stabilisation and transformation of these Central Asian economies into viable market economies are to be carried out in such a difficult situation, but the realisation of these tasks are subject to severe domestic and external constraints, and these constraints are both political and as well as economic in nature.

For instance, stabilisation of Central Asian economies would be possible by means of strict and not over budget deficits and money supply. It would also require the expansion of consumer goods production and their imports on a large scale.

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<sup>2</sup> Dieter, Heribert : "Regional Integration in Central Asia : Current Economic Position and Prospects." "Central Asian Survey, Vol. 15 (3/4), London, 1996, p.371.

But earlier none of the Central Asian states had their own monetary system. They were all members of so called Rouble zone. They had thus, no controls over the issue of money and all the decisions regarding the issue of rouble were taken in Moscow. The structures for the production of consumer goods are not developed. Expansion of consumer goods supply would be possible only by investing in new production facilities or through imports.

Supplies from Russia were completely disrupted. Imports from other sources would be possible only through increased export earnings or credits, but, it is difficult to obtain in the absence of transport facilities, links to ports and access to foreign markets. Establishments of transport links and developments of export markets for the product of Central Asian economies would be a time consuming process.

Successful economic reforms in an unbalanced and semi-developed countries like of Central Asia with a minimum cost would be a very difficult, without a large flow of capital, technology, managerial expertise and also access to markets.<sup>3</sup>

Foreign capital requirements of Central Asian economies are truly enormous. No single agency i.e., IMF, World Bank or any country can satisfy such larger requirements. These countries will have to search for various multiple sources.

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<sup>3</sup> Jayashekhar, "Problem of Economic Transition" World Focus, Vol. (3/4) 1993.p. 19.

However, trends in the flow of foreign private capital were not encouraging. Generally the flow of the foreign capital takes place in following preconditions.

- a. A large part of the flow of foreign capital is among the developed countries. A very part of it flows between developed and developing countries.
- b. Foreign private capital mostly flows into service and manufacturing sectors than to the production of primary products.
- c. Capital flows more to countries, with a large and expanding domestic markets.
- d. In the prevailing market conditions, investment in the production with the exception of some, is less attractive to foreign investors.
- e. Domestic political stability is a must pre-condition for attracting foreign capital.
- f. Capital flows to countries which have vibrant foreign trade sectors.
- g. Foreign capital moves into countries which have some domestic resources.
- h. The flow of capital would also depend on the nature of the economic reform programmes initiated.

Thus, trends in the movement of foreign capital clearly suggests that the prospects of large scale flow of capital into the Central Asian countries from



the west are extremely difficult. The IMF, and the World Bank can only act as a catalysts in the sphere of the supply of capital, but they are not fully equipped to satisfy all the capital needs of the individual countries. This forces the Central Asian states to look towards other options like Middle East, East Asia and India for capital.

However, the past behaviour of the Middle East capital suggests that it may not flow into Central Asia in large quantities. Profit, and not emotions for religion determines capital flows<sup>4</sup>.

The flow of foreign capital into the Central Asian state, from the west or the East would also depend to a significant extent on whether these countries will be able to adopt a well thought out reform programme. So far, all the Central Asian states have been trying to design an effective economic reform programme. Earlier all of them were thinking of adopting a revised version of the failed Gorbachevian programme. Such a programme can not be expected to encourage foreign investors.

One of the ways in which the Central Asian states, can meet the situation created by the inadequate flow of foreign capital and also make their economics viable is through the expansion of foreign trade. These countries have rich natural resources which can be exploited for increasing their foreign trade. But the expansion of trade requires access to ports and linking production bases to accessible ports through efficient means of transport i.e., railways.

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<sup>4</sup> Jayashekhar, Op. Cit p.20.

This has made the Central Asian states which are land locked, look for port facilities on countries such as Iran, Pakistan and Turkey in addition to available facilities through Russia. Of them accesses through Pakistan would be very costly and least advantageous because of rough and disturbed Afghanistan on the way.

However, if the Central Asian countries succeed in securing additional port facilities in Iran and Turkey, it will not only provide easy and cheaper accesses to external markets, but will also prevent either Russia or Iran or Turkey or even Pakistan from establishing a monopoly position over transport routes because there will be an intense competition among the Central Asian states only for utilisation of the provided transport facilities.

Many of these difficulties confronting economic reform and economic stabilisation in the Central Asian states can be reduced to some extent, though they cannot be eliminated. If these states can form a Central Asian common market or establish a common economic space with other interested members of CIS with Russia. Realising this, leaders of the Central Asian states have been making strenuous efforts to establish a common market as well as a larger common economic space involving members of the CIS.

Thus the course must be set for creating a sustainable economic structure. This structure should include a sound concept for regional structure, or, at a minimum for regional cooperation. By itself, none country in Central Asia can have realistic hope for achieving economic success, even if some of the observers from that region find it difficult to acknowledge.

Even the economies of larger states within Central Asia such as Kazakhstan and Uzbekistan are comparatively small. A single central Asian economy would still not constitute a large economic block. Thus the only alternatives available to these countries are other small states of Central Asia i.e., Kyrgyzstan, Tajikistan and Turkmenistan and other countries of CIS are regional integration.

Earlier Soviet Union's planning failed partly because it did not choose profitable projects in which to invest. There was of course no market save the foreign markets for the products and profit making had no priority. For this and other factors, price decontrol and incentives to use the price and not signals in the interests of profit here, as should have been, in priorities for the newly independent states. For much economic activity such incentive are optimally furnished by private property rights, and all the five central Asian states have made some progress in diversifying themselves of a proportion of their state enterprise<sup>5</sup>.

### **Basic Directions of Economic Reforms**

The periodisation followed here for economic reforms is quite tentative and it very much depends on the criteria adopted. In principle, a uniform classification may be proposed for all the post-Soviet Republics:

The first phase - Destruction of the old socio-economic mechanism, the disintegration of the USSR.

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<sup>5</sup> Kaser Michael : "Economic Transition in Six Central Asian Economies" Central Asian Survey, Vol. 16 (1) London 1997.

The second phase - Harnessing of the basic elements of the market economy.

The third phase - End of the systematic and economic crisis. Beginning of stable development of economy on the new market basis.

The first phase can be precisely dated, it began with the perestroika of Gorbachev and was over with the disintegration of the Soviet Union i.e. of 1985 -1991. All the Central Asian economies are created at present in the second phase of development. It is difficult to draw a distinct line between second and the third phases because of the well known conditional characteristics of the basic elements of the market mechanism. Achievement of economic stabilisation can hardly be considered as the essential indicator in the end of the second period. The stabilisation may occur even before completion of reforms in their basic features<sup>6</sup>.

### **Struggle for Economic Reforms**

The process of economic reform and economic transformations from a centrally planned economy to a market economy is very complex process. Therefore, even under the best of circumstances, it entails heavy transition cost and large difficulties. It is a process which involves institutional, structural as well as behavioural change.<sup>7</sup>

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<sup>6</sup> Belchuk, A.I. "Economic Reform in Central Asian Republics", Contemporary Central Asia, Vol.11(1), Karachi, 1998.

<sup>7</sup> Sachdeva Gulshan: "Economic Transformation in Central Asia" International Studies, Vol. 34 (3) New Delhi, 1997, p.313 .

In all the Central Asian states, most of the decisions about economic reform programmes and policies are largely dependent not on prevailing economic condition, but on the style of the respective leadership. From the beginning, Kazakh and Kyrgyz leaders have gone for relatively rapid economic change, whereas the leaders of Uzbekistan, Turkmenistan and Tajikistan have opted for a more gradual economic transition. In the case of latter, it was believed that the policy would reduce social dislocation and popular resistance. Events in Tajikistan had proved that social disturbance cannot be solely attributed to economic restructuring or to the extent of radicalism. But recently, Tajik and Uzbek governments have also shown seriousness towards reform<sup>8</sup>.

All the Central Asian states since their independence initiated economic reform programmes focussing primarily on creating the conditions conducive to economic activities and foreign investments, the privatisation of state asset and financial sector reform.

Since 1991, the Government of Kazakhstan had introduced a series of market oriented reforms. The main aim of the reforms are to concentrate on creating an appropriate legislative framework conducive to private sector development and investment. The government of Uzbekistan for its part had embarked on a gradualist approach to economic reform with the aim of preserving political, economic and social stability. Basic laws were passed in 1992 concerning external trade, competition, learning, currency and capital controls, bankruptcy, and a package of incentives and concession were offered to encourage joint ventures. In summer 1992 the Kryrgyzstan

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<sup>8</sup> Cevikoz Unal, Op. Cit. P.48.

government adopted a comprehensive three year economic reform programme. The main emphasis of the programme was on price liberalisation, reduction or elimination of subsidies as well as external trade and investment promotion. The focus was on macroeconomic obligation for the first two years followed by structural reforms in the third year.

Turkmenistan, is lagging behind the other Central Asian countries in economic reform process. Since independence, no comprehensive market oriented reforms were introduced. Instead, the main thrust of the government's economic reform which was an import-substitution, economic diversification, expansion of trade links with countries other than former Soviet Republics and developments of the communicational and infrastructural structure, prior condition for such links, high value added content of exports, measures to attract foreign direct investment, foreign technology, and strengthening the efficiency of Turkmenistan's domestic industries.

To consolidate its programme, the government of Turkmenistan established seven economic zones, and various laws on foreign investment, accounting, companies, foreign exchange, trade marks, copyright and bankruptcy were enacted. Similarly the government of Tajikistan adopted an economic reform programme in early 1992. A liberal law on foreign investment was enacted. Many fiscal incentives and concessions, were given in particular for the development of small and medium - scale businesses and Tajikistan's hydro-electric power sector. A joint Tajik-Western strategy committee was formed to

oversee the drafting and adoption of commercial law in compliance with international standards.

### **Liberalisation of prices**

Freeing of price formation and movement of prices is well known leading element in the market. One of the main directions in the economic reform process in all the Central Asian states was the price liberalisation. Among the economic reform, liberalisation of prices together with change in property relation and privatisation, undoubtedly the basic 'essential construction' of market economy.

Price liberalisation was the first radical step in the economic reform. All the Central Asian states were forced to undertake this measure since the beginning of 1992 following the price liberalisation in Russia. All states from very beginning retained control over rent, payment for civic amenities and also the prices for oil, electricity, gas and some basic food items, differing from country to country. Price control by state had been preserved for a number of important goods, i.e. cotton in Uzbekistan and Turkmenistan, etc. However the Central Asian governments have followed the policy of gradual liberalisation in different form.

On a whole, state regulation of price was to a greater degree related to oil, gas and electricity, various raw materials, transport and communication, civic services and basic food products. These were directed toward supporting the less protected strata of the population on the one hand and on the other towards minimising the shock effect of increase in cost of production in the

processing branches of industry due to steep rise in prices of fuel and raw materials. To maintain the prices at lower level than the market prices, subsidies from the state budget caused substantial expenditure.

The level of liberalisation of prices and the price rise differed from state to state in Central Asia, reflecting the general policy of economic reform. Kazakhstan and Kyrgyzstan occupied a more active position whereas the states of Uzbekistan and Turkmenistan followed a more conservative line. But, on the whole, towards the end of 1996 the main goods and services in a number of countries in Central Asia had been liberalised and free price formation covered more than 90 percent of the consumer goods.

### **Foreign Investments**

The initial result of Central Asian republics foreign investments promotion strategies was generally encouraging. Kazakhstan had been more successful than other Central Asian states in terms of the foreign investment, particularly in energy resource development. Many prominent agreements were signed including a deal between the Kazakhstan's government and the US multinational Chevron Oil for the development of Kazakhstan's huge Tengiz and Korelev oil fields. A multi billion deal was signed with a Turkish firm for oil field related investments and for construction of a large power plant and gas treatment plant. Furthermore, the Kazakh government granted the permission to a consortium of western oil companies to explore oil beneath the Caspian sea, and to a British firm for development of the Karachaganak gas fields.



A number of joint ventures officially registered and subsidiaries of foreign companies present in Uzbekistan by December 1992 stood at 570 against 158 at the end of the preceding year. Uzbekistan possesses gold reserves, and an agreement for expansion of existing units and developments of processing facilities was signed between the Uzbek government and a US company. Priority is being accorded to attracting foreign investment in energy resource development, joint ventures and establishment of a textile base for supplementing Uzbekistan's enormous western economy.

The Kyrgyz government is seeking foreign investment for expansion and modernisation of its mineral resource industry and exploitation of its hydroelectrical potential. Major international agreements include a deal for construction of a 1900 MW hydro electric project on the Naryn River, and several joint ventures have commenced in collaboration with Chinese, South Korean and Turkish firms.

Turkmenistan's reforming of investment laws have helped attract some international investment. In 1991, fifteen joint ventures were initiated for petrochemicals, agro processing, mineral exploration, transport and the service sectors. Foreign investment trickled into Turkmenistan's gas sector after the government offered off-shore blocks to foreign bidders. In summer 1992 a major deal was signed with an Italian company for construction of an oil refinery north of Ashgabat. Other notable agreements pertaining to the construction of an Iran-Turkmenistan railway link, a joint Iranian -Turkmen banking and customs systems and several Iran-Turkmen barter deals took place.

Apart from private foreign investments, Central Asian governments have received financial assistance from major international lending institution and donor states to give impetus for their economic reform programmes. Kazakhstan became a member of the Asian Development Bank, the Islamic Development Bank and the European Bank for Reconstruction and Development (EBRD).

Kyrgyzstan's subsequent departure from rouble zone had attracted pledges of US \$ 250 million in international funding for consolidation of its economic reform programme and a balance of payments support. Japan is committed to give Kyrgyzstan a substantial long term aid and technical assistance, and some financial assistance through on a lesser scale was pledged by the OECD, Germany, South Korea, Spain and Italy.

All Central Asian governments seem publicly committed to economic reforms. Through possessing the advantage of a fairly well-developed physical infrastructure, a skilled work force, and abundant natural resources. But, numerous factors are discouraging large scale foreign investment in Central Asian region i.e., economic stagnation, considerable political opposition to reform, tendency towards adhocism in establishing a regulatory frame work more conducive to foreign investment, ambiguity over property rights, regional ethnic conflicts with potential spill over effect, public sector dominance of the economy, the land locked location of Central Asian and increasing and lucrative opportunities for global investments elsewhere.

## Privatisation

Concurrent with their efforts to attract foreign investment, Central Asian governments had initiated privatisation programmes. The Kazakh government policy strategy for 1992-95 accords priority to the privatisation of state assets barring defence and defence related industries.

The first phase of the programme focussed mainly on small industries. In 1992 more than 6000 small and medium sized businesses were denationalised and privatised.

**Table 2.1**  
**Privatisation Plans for Kazakhstan 1994-1995**

	1994	1995
<b>Industry and Mining</b>	17	25
<b>Agriculture</b>	46	50
<b>Trade and Catering</b>	50	65
<b>Business Services</b>	11	28
<b>Consumer Services</b>	51	63

Source: Economic Survey of Europe in 1996-1997, Economic Commission for Europe, UN, Geneva.

Kazakhstan has attained considerable success in privatising small enterprises and the process is almost complete. By the beginning of 1995 approximately 20 percent of all small and medium state enterprises had been privatised, and more than one third of the 2500 agricultural farms enterprises had been

transferred to the private sector<sup>9</sup>. But in the case of large scale privatization, the situation is totally different. The government's Mass Privatisation Programme (MPP) has not been very successful. The programme had been hampered by the lack of a secondary market for vouchers, frauds, frequent exclusion of foreigners from many key sales and retention by the governments of a 39 percent stake in firms. The government had planned to end MPP by the year 1996. However, it has not been able to come out with an alternative coherent and viable privatisation programme.

**Table 2.2**  
**Number of Enterprises Privatised in Uzbekistan 1992-1995**

	1992	1993	1994	1995
<b>Industry, construction, transport</b>	11,900	1900	3700	3700
<b>Agriculture</b>	20	80	500	900
<b>Trade, catering and consumer services</b>	19,700	51,300	57,500	62,600

Source: Economic Survey of Europe in 1996-1997, Economic Commission for Europe, UN, Geneva.

In 1992 the Uzbekistan's governments passed some new laws relating to privatisation, stock exchange and bankruptcy. Many incentives to encourage foreign investment and joint ventures were also announced. According to the

<sup>9</sup> Asian Development outlook for 1996, 1997 Asian Development Bank, Hong Kong, 1996.

government, small scale privatisation was completed in 1994 and in early 1995 more than 80 percent retail trade was in private hands. The Uzbek government had not been very successful in terms of large scale privatisation and most of the laws were only on paper. Only in 1995, the government started a very modest stabilisation programme.

**Table: 2.3**

**Number of enterprises Privitised in Kyrgyzstan, 1992-95**

	1992	1993	1994	1995
<b>Industry, Construction &amp; Transport</b>	222	564	726	970
<b>Trade, Catering &amp; Consumer Services</b>	2042	3437	3597	3666
<b>Agriculture</b>	53	235	319	342
<b>Other Branches</b>	--	192	482	865

Source: Economic Survey of Europe in 1996-1997, Economic Commission for Europe, UN, Geneva.

In summer 1992, the Kyrgyz government initiated a privatisation programme setting ambitious sectoral privatisation targets. Small and medium enterprise privatisation has progressed satisfactorily. According to the state property fund of Kyrgyzstan, about 6000 companies had been privatised by 1995. But the governments record is not very encouraging in enterprise restructuring.

**Table : 2.4**  
**Privitisation in Turkmenistan in 1995**

	<b>Scheduled for Privatisation</b>	<b>Privatised</b>
<b>Small enterprises</b>	3980	1652
<b>Medium enterprises</b>	1645	4
<b>Large enterprises</b>	90	1
<b>Total</b>	5715	1657

Source: Economic Survey of Europe in 1996-1997, Economic Commission for Europe, UN, Geneva.

In Turkmenistan, in the area of privatisation, little progress has been made. A law on privatisation was passed in 1992 and many small scale companies were leased to employees. The first phase of privatisation, started in 1994, about 1300 state owned enterprise, had been privatised. But about 93 of the total number of privatised enterprise were purchased by labour collectives of the enterprise concerned, and the rest were sold by auction. The second phase, which started in 1996, will cover companies operating in industry, construction and transport sectors. It will deal with only 15 percent of companies suitable for privatisation.

**Table 2.5**  
**Number of Enterprise Privatised in Tajikistan 1991-1995**

<b>Industry</b>	73
<b>Consumer Services</b>	997
<b>Agriculture</b>	25
<b>Construction</b>	52
<b>Transport</b>	18
<b>Trade and Catering</b>	552
<b>Other Branches</b>	110
<b>Total</b>	1830

Source: Economic Survey of Europe in 1996-1997, Economic Commission for Europe, UN, Geneva.

In 1991 Tajikistan enacted a privatisation law, followed by the adoption of a systematic privatisation programme envisaging denationalisation of 840 state enterprises in 1992. The government also planned to reorganise the loss making agro-industrial state enterprises through conversion into joint stock companies, cooperatives or private firms.

Thus the privatisation efforts in Central Asian states have been partly controversial. The momentum for privatisation had been tended to originate from the government rather than at the grassroots level, and considerable bureaucratic resistance and political opposition to it was encountered.

The privatised enterprises in all Central Asian Republics are too small to have a significant overall economic impact and their management lacks the expertise in running them on modern scientific lines.

**Table 2.6**

**IMF Selected Indicators of Reform for Central Asia (1995)**

	Fiscal consolidation	Privatisation and land reform	Institutional reforms	Legal/ govt. framework	Survey net	Trade liberalisation
<b>Kazakhstan</b>	M	M	M	M	L	M
<b>Kyrgyzstan</b>	M	S	M/S	M	L	S
<b>Tajikistan</b>	L	L	L	L	L	L
<b>Turkmenistan</b>	L	L	L	L	L	L
<b>Uzbekistan</b>	L/M	L	L	L	L	L

L,M,S stand for little, moderate, substantial progress respectively

Source: IMF Survey, 11 Dec 1995

The table 2.6 gives assessment made by the IMF. IMF studies had prepared index of economic reform with the help of selected indicators to represent the duration as well as intensity of reforms. According to the table within the Central Asian states, Kyrgyzstan is a frontrunner, followed by Kazakhstan, Uzbekistan, Tajikistan and Turkmenistan is the least liberalised and reformed economy in Central Asia.

**Financial Sector Reforms**

Central Asian governments have also initiated financial sector reform programmes. The National Bank of Kazakhstan was established in 1992 and



the number of banks operative in Kazakhstan subsequently proliferated rapidly. Uzbekistan's financial system reform programme announced in 1992 and the Central Bank was established to function independently of the commercial banks, financial sector legislation was enacted and new banks were established. The National Bank of Kyrgyzstan was established in 1991 as an autonomous institution exercising all monetary control and supervision of banking system. Turkmenistan's banking sector comprises the State Bank of Turkmenistan, the Savings Bank, a Foreign Trade Bank and five new banks were formed in 1989-91. The National Bank of Tajikistan was established in 1991 to function alongside the Savings Bank, the Bank for Foreign Trade Affairs etc. The law on Banks and Banking activities 1991, permits free inter-bank competition for resources and lifts specialisation boundaries.

Though Central Asian states have achieved some progress in their financial sector reform, some serious problems still remain with it such as inadequate supervision, corruption, burdened with excess debt, higher asset concentration levels etc. In all the Central Asian states, personnel and regulatory constraints and the lack of modern banking expertise are seriously impeding financial sector growth. The continuing public sector predominance of the financial sector implies that credit is being channel to vistas accorded priority by policy makers instead of the private sector, in many cases interest rates are significantly below prevailing inflation rates. Furthermore, stock exchanges and securities markets have yet to be developed in Central Asia.

**Table 2.7**

**Progress Reforms as Monitered by EBRD, World Bank and EIU in 1995**

	<b>Aggregate EBRD Index*</b>	<b>World Bank classification**</b>	<b>EIU Index of Institutional Development***</b>
<b>Kazakhstan</b>	1.8	2	1.6
<b>Kyrgyzstan</b>	3.5	2	1.7
<b>Tajikistan</b>	1.3	0	1.2
<b>Turkmenistan</b>	0.8	1	1.3
<b>Uzbekistan</b>	2.0	1	1.3

\* EBRD rates on a scale of 1-4 progress across transition economies in mine areas of reform: large and small scale privatisation, enterprise restructuring, price liberalisation competition, liberation in trade and foreign exchange systems, and banking and other financial reforms.

\*\* World bank classification: 4 = leading reformers, 3 = advanced reformers, 2 = intermediate reformers, 1 = slow reformers, 0 = country affected by regional tourism.

\*\*\* Economist Intelligent Unit (EIU) scores are in scale of 1 to 4.

Source: Transition, vol. 7 (7/8), 1996

In this table 2.7 assessment is done by EBRD, World Bank and EIU. It is clear from the table that Kyrgyzstan is highest on EBRD index. In the World Bank classification Kazakhstan and Kyrgyzstan are jointly on the top. The EIU scores are highest for Kyrgyzstan. In all these categories Turkmenistan has lowest scores which suggest the its poor condition in terms of liberlisation process.

## **Conclusions**

Thus the economic reforms and economic transformation in Central Asian states since their independence , their analysis of problem explains how the complex reform process from centrally planned economy to a market economy is. As far as Central Asian economies are concerned, they are not only dealing with usual reform measures but also struggling to maintain their certain level of development. But compared to Central and Eastern Europe and Russia, the process of economic transformation in Central Asia is still at a very early stage.

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## **STRUCTURAL CHANGES AND RELATIVE CHANGE IN VARIOUS SECTORS OF CENTRAL ASIAN ECONOMIES**

### **Introduction**

Structural Changes can be viewed as a set of inter-related changes in the structure of an economy that are required for its continued growth. They involve the composition of demand, production, and employment as well as the external structure of trade and capital flows.<sup>1</sup>

Taken together these structural changes define the transformation of a traditional economy into a modern economic system. Structural changes are thus necessary for successful economic development of most countries, Central Asian states are one of them, which are characterised by an increase in the share of agriculture manufacturing in total output. These structural changes is both a cause an effect of rising income too. It also looks into trade policies, budget, investment etc.

Despite the fact that some of these factors are quite similar among countries others may differ as a consequence of resource endowments and the development strategy adopted.

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<sup>1</sup> Chenery Hollis, "Structural changes and Development", A World Bank Research Report, Oxford University Press, New York, 1979, p. xvi.

As we have seen that the programmes of economic reform were carried out in Central Asian economies after its independence. The process of economic restructuring which is underway in the Central Asian economies has profound implications for economic performance. The process by and large driven by the emerging market forces implies substantial shifts of factor and resources among different sectors of economic activity. However, after an initial period of dramatic changes during the first few years of economic reforms, the economic restructuring process has tended to slow down somewhat in recent years, which have number of reasons for this apparent deceleration in the economy.

It should be underlined that the strikingly rapid structural changes that occurred at the start of the economic transition were mostly of a passive nature and they simply reflect the different ways at which different economic activities were shrinking.

With the start of the recovery in aggregate output, the very nature of the dynamics of structural change has altered. Shifts in the composition of output are beginning to reflect, to an increasing degree, the more active nature of the process of economic restructuring and the emergence of new economic agents, at the same time, it also reflects the different rates of growth of different economic activities.

Understandably, active restructuring is a fundamental economic issue for the Central Asian Economies in transition and by its nature, is much slower than the earlier process when such capacity was simply being destroyed. The current stage involves defining the new place of these economies in the international division of labour and reflects their emerging comparative advantages in an increasingly interdependent world economy.

The directions of economic restructuring in these Central Asian states are being shaped in the first place by the directions of the flows of new investment and, frequently, by the flows of foreign direct investment. However, it should be added that the speed of economic restructuring has been impeded by the lack, of capital markets or by the low degree of factor mobility in these Central Asian economies.

As a consequence of structural changes in Central Asian economies after their independence, there has been changes in the output growth as well as the relative share in the output of various sectors of their economy.

### **Output Growth**

As noted earlier, by 1996-97, most of the economies of Central Asia have succeeded in reversing the economic decline they had been experiencing since the beginning of the 1990s and have set themselves on the path to positive growth.

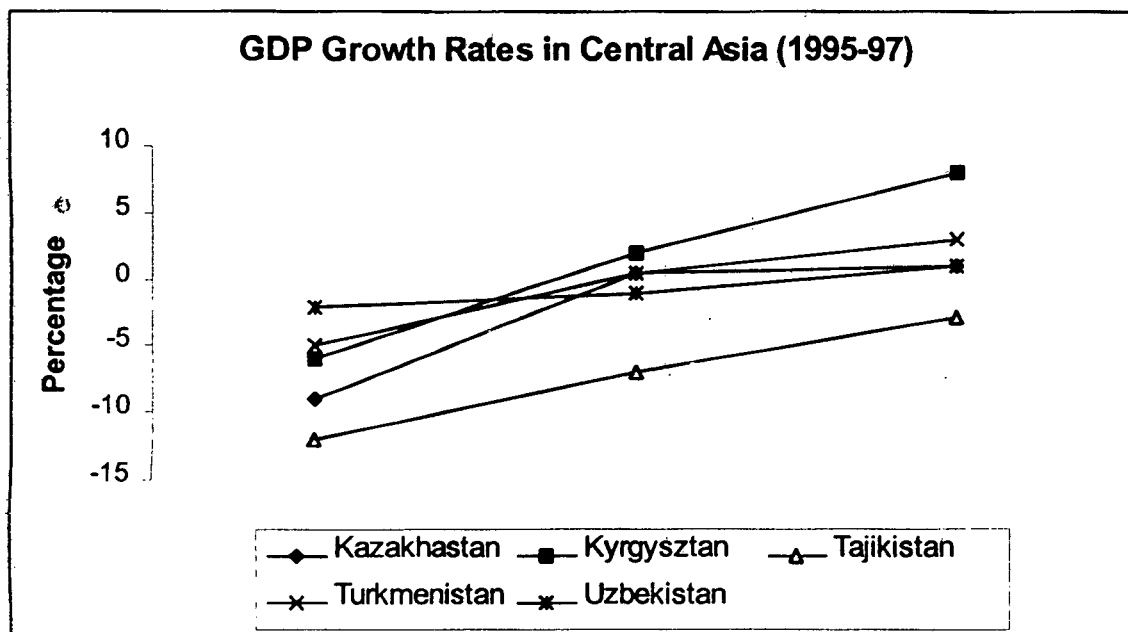
Table 3.1

**GDP Growth Rates in Central Asian States 1995-1997  
(Rate of growth in percent)**

	1995	1996	1997
<b>Kazakhstan</b>	-9.0	0.5	1.0
<b>Kyrgyzstan</b>	-6.0	2.0	8.0
<b>Tajikistan</b>	-12.0	-7.0	-3.0
<b>Turkmenistan</b>	-5.0	0.5	3.0
<b>Uzbekistan</b>	-2.0	-1.0	1.0

Source: Economic & Social Survey of Asia and the Pacific 1998, Economic & Social Commission for the Asia and the Pacific, UN, New York.

Figure : 3.1



It is very clear from the table 3.1 that the year 1996 had proved to be a turning point for the Central Asian economies, with the long contraction in output that began after independence of the Central Asian states having at last ended .

However aggregate GDP continued to decline in 1994 as compared to 1991, but recorded an increase in 1995 and 1996. The trend still continued as expected in 1997. Kyrgyzstan registered highest GDP growth rate of 8 percent in 1997 which is a rapid increase in comparison to other economies of Central Asia. Kazakhstan, Turkmenistan and Uzbekistan have shown increase of 1 percent, 3 percent and 1 percent GDP growth rates respectively. The Tajik economy however, continued to contract through 1997( Fig. 3.1).

The outputs here began to recover only after an extended period of macro-economic stabilisation. The achievements reflected the progress in reforming the organisational, institutional and policy framework of formerly planned economies to suit the needs of modern market economies.



**Table 3.2**

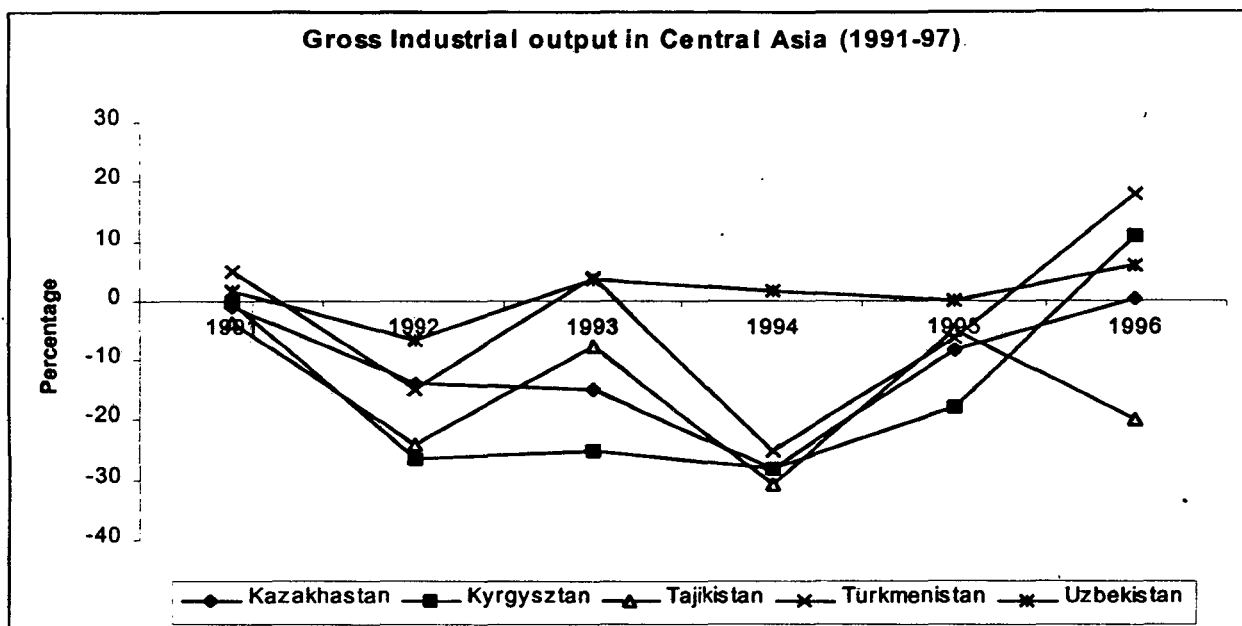
**Gross Industrial output in Central Asian States 1991-1997  
(Rate of growth in percent)**

	1991	1992	1993	1994	1995	1996	1997
<b>Kazakhstan</b>	-0.9	-13.8	-14.8	-28.1	-8.2	0.3	3.6
<b>Kyrgyzstan</b>	-0.3	-26.4	-25.3	-28.0	-17.8	10.8	45.9
<b>Tajikistan</b>	-3.6	-24.2	-7.8	-30.8	-5.1	-19.8	-8.0
<b>Turkmenistan</b>	4.8	-14.9	4.0	-25.0	-6.4	17.9	14.7
<b>Uzbekistan</b>	1.5	-6.7	3.6	1.6	0.1	6.0	5.4

Source: Economic & Social Survey of Asia and the Pacific 1998, Economic & Social Commission for the Asia and the Pacific, UN, New York.

Like the other sectors, industrial output also declined in Central Asian economies between the period of economic recession i.e. 1991 and 1994 as a result of sharp increase in price of inputs and disruptions in trade with the other former Soviet Union economies. But as shown in the table 3.2, with the rise of 45.9 percent in Industrial output during 1997, Kyrgyzstan have shown by far the best industrial performance. Increase in industrial output remained rather modest in Kazakhstan. In Uzbekistan, industrial output rose by 5.4 percent in 1997, driven mainly by the machinery, metallurgy, chemicals and light industrial sector. However Tajikistan continued to show contraction in industrial sector, but definitely there was a betterment. Turkmenistan showed a rise of 17.9 percent in industrial output in 1996 that was further lowered to 14.7 percent in 1997 (Fig. 3.2).

Figure : 3.2



The increase in the industrial output in most of the economies of Central Asia resulted from structural changes initiated in economic reforms and the growth of small private firms. The private sector, for example accounted for 52 percent of industrial output in Uzbekistan<sup>2</sup>.

**Table 3.3**  
**Gross Agricultural Output in Central Asian States 1991-1996**  
**(Rate of Growth in percent )**

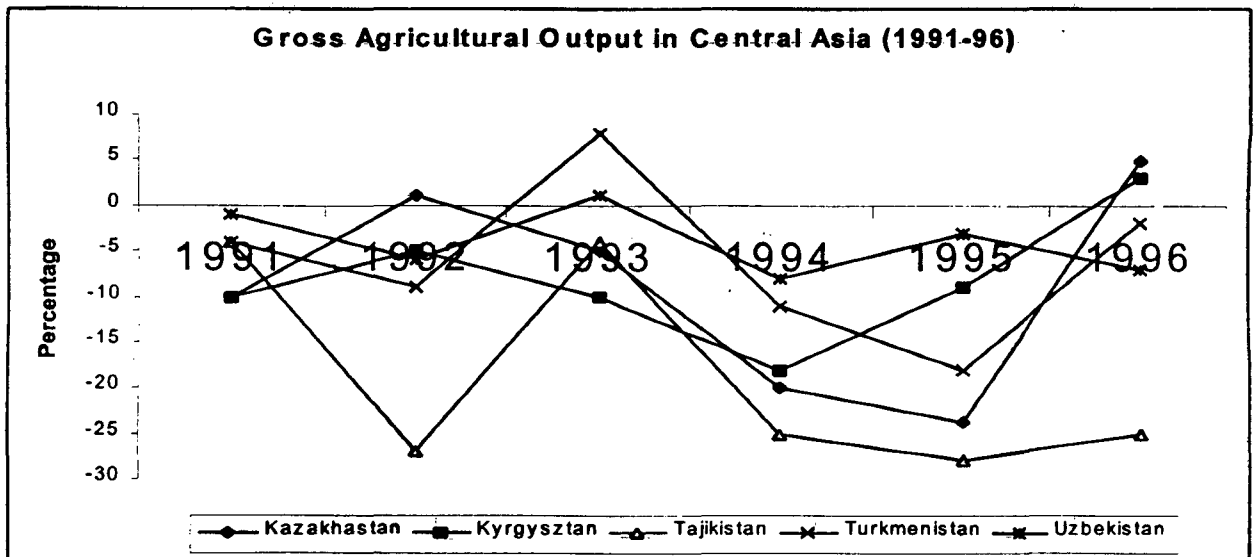
	1991	1992	1993	1994	1995	1996
<b>Kazakhstan</b>	-10.0	1.0	-5.0	-20.0	-23.8	4.8
<b>Kyrgyzstan</b>	-10.0	-5.0	-10.0	-18.0	-9.0	3.0
<b>Tajikistan</b>	-4.0	-27.0	-4.0	-25.0	-28.0	-25.0
<b>Turkmenistan</b>	-4.0	-9.0	8.0	-11.0	-18.0	-2.0
<b>Uzbekistan</b>	-1.0	-6.0	1.0	-8.0	-3.0	-7.0

Source: Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

<sup>2</sup> Economic & Social Survey of Asia and the Pacific 1998. Economic and Social Commission for Asia and Pacific, UN, New York , p 40.

As evident from the table 3.3, Agriculture also declined drastically after independence of Central Asian states. But, decline is not as pronounced as in industrial sector. Agriculture has come to play a greater role in the economy, increasing its output as shown. Consequently, the economy is now strongly influenced by the performance of agriculture, and growth of it in 1996 results its revival. Crop production as a whole in 1996 advanced, led by strong performance in grain production ( Fig. 3.3 ).

**Figure :3.3**



Agricultural reforms, including the speed of market - based incentives, have given farmers the freedom to change their crop mix and they have begun to take advantage of emerging urban markets. But still the agricultural sector continued to suffer from lack of sufficient reform and faces chronic under-investment, low product prices etc.

## Share in GDP

The structural changes have also affected the growth in various sectors as we have seen earlier, but also there has been considerable change in the share of major sectors in GDP in the Central Asian economies.

**Table 3.4**

**Share of Agricultural Sector in GDP 1991-1996  
(percent of GDP at current prices)**

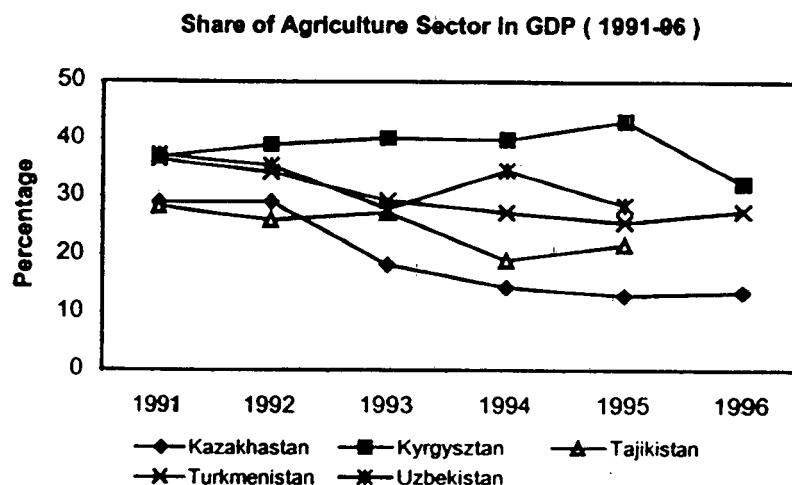
	1991	1992	1993	1994	1995	1996
<b>Kazakhstan</b>	29.0	29.1	18.3	14.4	12.9	13.5
<b>Kyrgyzstan</b>	36.9	39.0	40.0	39.9	43.1	32.3
<b>Tajikistan</b>	28.29	25.9	27.2	19.0	21.7	-
<b>Turkmenistan</b>	36.41	34.2	29.3	27.2	25.5	27.50
<b>Uzbekistan</b>	37.2	35.4	27.9	34.5	28.5	-

Source: Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva

The agricultural sector in the Central Asian economies is suffering from low efficiency and a markedly lower level of technology than in other countries of CIS. Low labour costs have not always been sufficient to offset the gap in competitiveness and most of the Central Asian states are still heavily subsidising their farmers and applying various measures of trade protection. Thus to the Central Asian countries, pace in restructuring of agriculture has generally been much slower than in other areas of reforms.

Thus as mentioned in the table 3.4, the agricultural sector in GDP has been declining, probably due to a lag in product growth. For example, the share of the agricultural sector in GDP of Kazakhstan decreased from 29 percent in 1991 to 13.5 percent in 1996. Agriculture contributed 43.1 percent of GDP of Kyrgyzstan in 1995, compared to 36.9 percent in 1991. However, it declined to 32.3 percent in 1996 ( Fig. 3.4). Turkmenistan and Uzbekistan in general have shown marginal decline in the share of agriculture barring few fluctuations. There has been ups and downs in the performance of agriculture sector as for as its relative share in GDP is concerned.

**Figure 3.4**



**Table 3.5**

**Share of Industrial Sector in GDP 1991-1996  
(percent of GDP at current price)**

	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>Kazakhstan</b>	27.7	30.9	30.6	26.7	26.4	22.5
<b>Kyrgyzstan</b>	29.3	35.1	27.2	22.3	16.9	23.4
<b>Tajikistan</b>	33.23	34.8	36.2	34.6	35.3	-
<b>Turkmenistan</b>	32.29	30.54	26.82	28.05	32.05	33.09
<b>Uzbekistan</b>	26.5	26.6	22.4	17.0	16.4	-

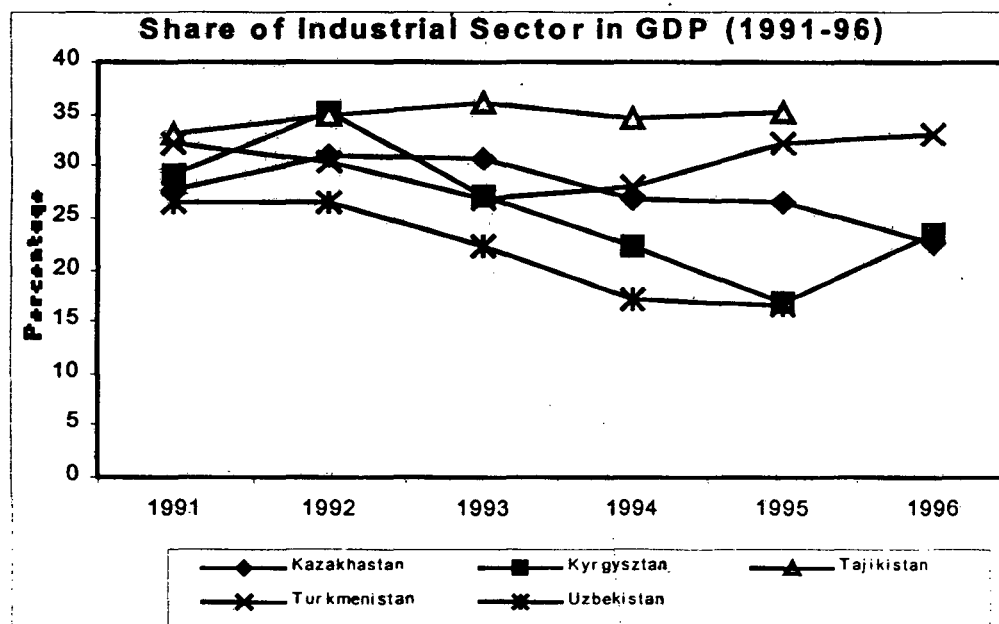
Source : Economics Survey of Europe in 1996-1997, Economies, Commission for Europe, UN, Geneva.

The industrial sector in the Central Asia also suffered like the other major sectors during so called long depression period. However, reflecting the first tangible results of the governments reform programmes and some pick up in external markets, there has been evident increase in production and relative share of industrial sector in 1995 and 1996.

The indication that economic activity has begun to increase in industrial sector is evident from the table 3.6 in which tremendous increase has been shown by Kyrgyzstan where share of industrial sector in GDP rose to 23.4 per cent in 1996 from mere 16.9 percent in 1995, however it is low as compared to the figures of 29.3 percent in 1991. Another major increase is shown in Tajikistan and Turkmenistan where share of industrial sector in GDP has risen significantly. Share of industrial sector was 35.3 percent in 1995 as

compared to 33.23 percent in 1991 for Tajikistan whereas for Turkmenistan, its share was 33.9 percent in 1996 as compared to 32.29 percent in 1991.

Figure 3.5



However, there have been ups and downs in the share of industrial sector in GDP. Among other states, Kazakhstan showed relatively meagre decline whereas Uzbekistan showed substantial decline from 26.5 percent in 1991 to low 16.6 per cent in 1995 ( Fig. 3.5 ).

**Table 3.6**

**Share of Service Sector in GDP 1991-1996  
(percent of GDP at current prices)**

	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>Kazakhstan</b>	35.5	32.6	41.8	49.5	54.3	60.2
<b>Kyrgyzstan</b>	27.2	21.8	27.3	34.3	32.9	39.2
<b>Tajikistan</b>	28.48	30.6	30.7	34.4	35.2	-
<b>Turkmenistan</b>	21.3	22.48	23.05	25.21	27.63	29.41
<b>Uzbekistan</b>	25.9	28.4	40.8	41.3	47.3	-

Source : Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

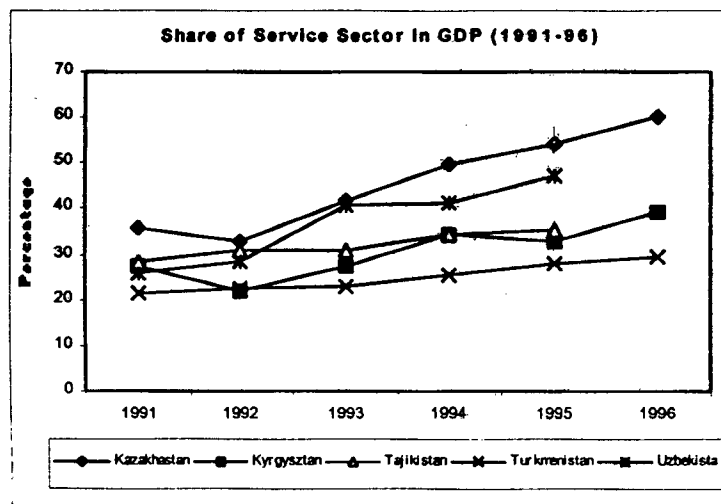
An important change that has been taking place in these Central Asian economies since the structural changes in economic reform process and opening up to the market process is the growing importance of the service sector. As seen in the table 3.6 that share of services sector in GDP has been rising rapidly in all the Central Asian economies, thus reflecting both relatively easy and quick entry of the private sector into the service sector and a relative lag in the agricultural and industrial sectors share in GDP.

For example, the share of the services sector in GDP of the Kazakhstan increased from 35.5 percent in 1991 to as high as 60.2 percent in 1996. Services also generated good 47.3 percent of GDP in Uzbekistan in 1995, as compared with 25.9 per cent in 1991. Whereas in all the other Central Asian



economies of Kyrgyzstan, Tajikistan and Turkmenistan have shown gradual increase in the share of services sector in GDP from 27.2 percent, 28.48 percent, 21.3 percent respectively in 1991 to high 39.2 percent for Kyrgyzstan in 1996, 35.2 percent for Tajikistan in 1995 and 29.41 percent for Turkmenistan in 1996 (Fig. 3.6).

**Figure 3.6**



## Inflation

The economies of Central Asia have achieved significant success in pushing annual inflation rates down. The rate of inflation started falling in 1995 from their level exceeding 1000 percent in most of the Central Asian Economies, and continued to fall during 1996-97. As evident from the table 3.7, by 1997, the rate of inflation came down to 20 percent Kazakhstan and Kyrgyzstan.

Table 3.7

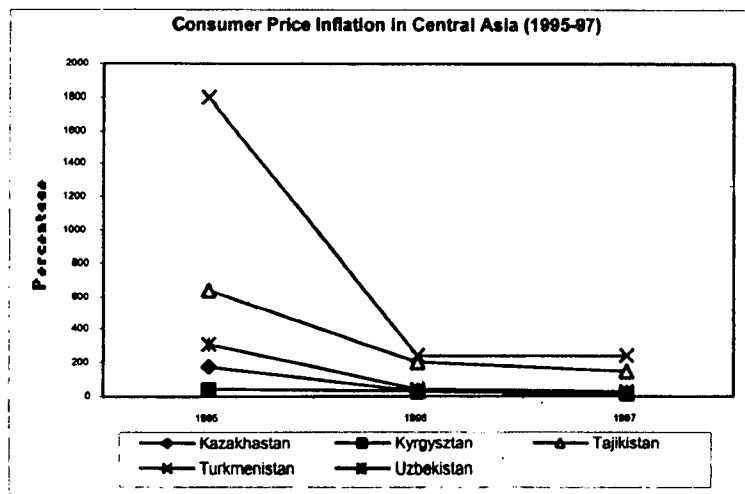
**Consumer Price Inflation in the Central Asian States 1995-1997  
(Annual Average in percent change)**

	1995	1996	1997
<b>Kazakhstan</b>	180	26	20
<b>Kyrgyzstan</b>	45	27	20
<b>Tajikistan</b>	635	200	150
<b>Turkmenistan</b>	1800	250	250
<b>Uzbekistan</b>	315	40	30

Source : Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

The next best result was achieved by Uzbekistan, where inflation rate of 30 percent was recorded in 1997 (Fig. 3.7). The worst performance in holding the inflation down was shown by Turkmenistan and Tajikistan where inflation rates are still as high as 250 and 150 percent respectively.

Figure 3.7



Estimates for 1998 indicated a greatly improved records of 14 percent inflation in Kazakhstan and Kyrgyzstan, while the inflation rate of Uzbekitan was to remain static at around 30 percent. The estimated rates of inflation in Tajikistan and Turkmenistan of 48 percent and 180 percent respectively in year 1998 are still substantially high. But the estimated rates, for these countries if actually realised, would show a vast improvement over the 1997 rates. Records for the early months of 1998 indicate that the estimated low inflation rates in Central Asian economies would infact be realised.

A strict control in money supply and considerable reduction in budgetary deficits have contributed to the success in reducing the inflation rates in most of the Central Asian countries. Some of the countries are, however, adopting additional measures to fight inflation. Kyrgyzstan, for example, adopted measures to tighten regulation on monopolies and to reduce the rate of VAT charged on utilities in order to soften the impact on consumer prices. In Kazakhstan, however, while the impact of monetary growth on prices was held in check through strict control, higher prices of utilities, transport and commnications, recreation and education, contributed to the rise in the consumer prices.

### **External trade**

Central Asia's trade, like that of the other former Soviet Union Republics, was severely disrupted by events surrounding independence. The five Central Asian states, formulated their policies on international trade in two familiar

contexts. The first, was to use trade to recover, and then to overcome the transition recession, a considerable factor in which was the cessation of trade with enterprises in the former Soviet Union. Because it would be but optimal to revive all those exchanges, some of the trade expansion must be with other partners to benefit from present trends in economic globalisation. The attempts should be generally to reduce barriers to trade and in particular to participate fully in the World Trade Organisation.

**Table 3.8**  
**Merchandise Exports of the Central Asian States 1992-1996**  
**(Billion Dollars)**

	1992	1993	1994	1995	1996
<b>Kazakhstan</b>	1.398	1.501	1.357	2.343	2.787
<b>Kyrgyzstan</b>	0.077	0.112	0.117	0.140	0.101
<b>Tajikistan</b>	0.111	0.263	0.320	0.497	0.432
<b>Turkmenistan</b>	0.908	1.049	0.494	0.951	0.532
<b>Uzbekistan</b>	0.869	0.721	0.966	1.712	2.825

Source : Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

In the table 3.8 it is very clearly indicated that merchandise exports in the Central Asian economies have been increasing rapidly in the case of Kazakhstan and Uzbekistan, probably because they have benefited from the overall increase in the energy prices. Energy and mineral resources thus dominate their exports. For the other states of Kyrgyzstan, Tajikistan and Turkmenistan there has been decrease in their exports ( Fig. 3.8 ) , however, their main exports also include oil and gas, non-ferrous and ferrous metals.

Figure 3.8

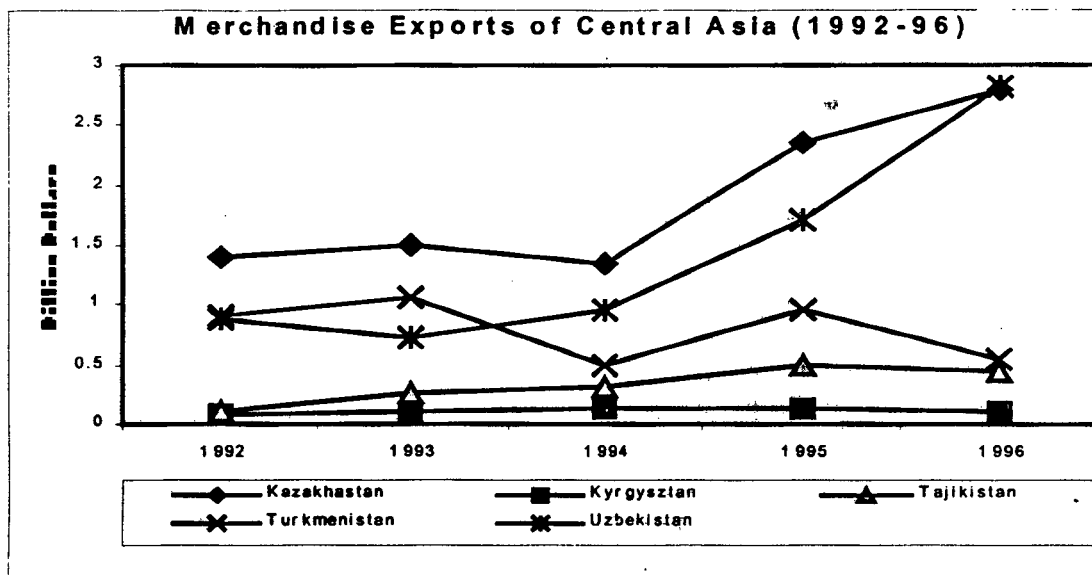


Table 3.9

**Merchandise Imports of the Central Asian States 1992-1996  
(Billion Dollars)**

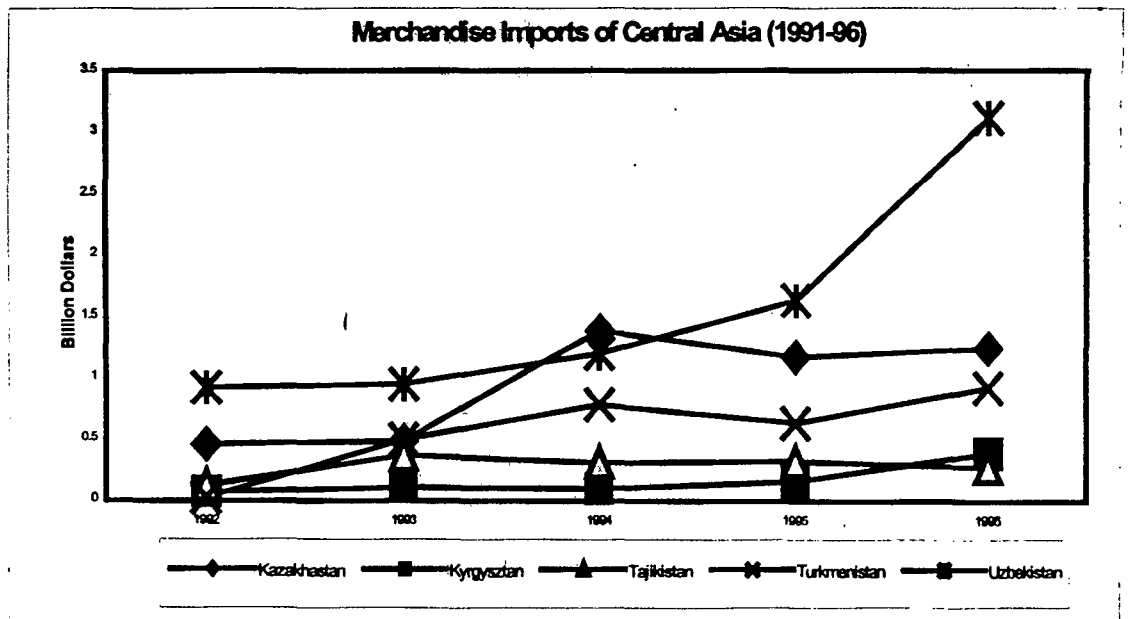
	1992	1993	1994	1995	1996
<b>Kazakhstan</b>	0.469	0.494	1.384	1.172	1.241
<b>Kyrgyzstan</b>	0.071	0.112	0.108	0.169	0.395
<b>Tajikistan</b>	0.132	0.374	0.318	0.321	0.269
<b>Turkmenistan</b>	0.030	0.501	0.782	0.629	0.918
<b>Uzbekistan</b>	0.929	0.958	1.202	1.630	3.116

Source : Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

In the table 3.9, it is very clearly shown the condition of merchandise imports in the Central Asian states. The imports has been increasing steadily

in Kyrgyzstan, Turkmenistan where as in Kazakhstan and Tajikistan the increasing trend changed in year 1996 where it decreased from the previous year 1995. But above all in Uzbekistan the imports increased rapidly in 1996, almost doubling the figures of year 1995 ( Fig. 3.9 ). However the main items imported were consumer goods products, which were in short in these countries because of poorly developed industries. Besides the technological help, machinery remained also integral part of its imports.

**Figure 3.9**



As shown in the table 3.10, the negative balance of merchandise trade for Central Asian states trade deficit is experienced only by the states of Kyrgyzstan, Turkmenistan and Uzbekistan, but the balance remained positive for the countries of Kazakhstan and Tajikistan (Fig. 3.10 ).

Figure 3.10

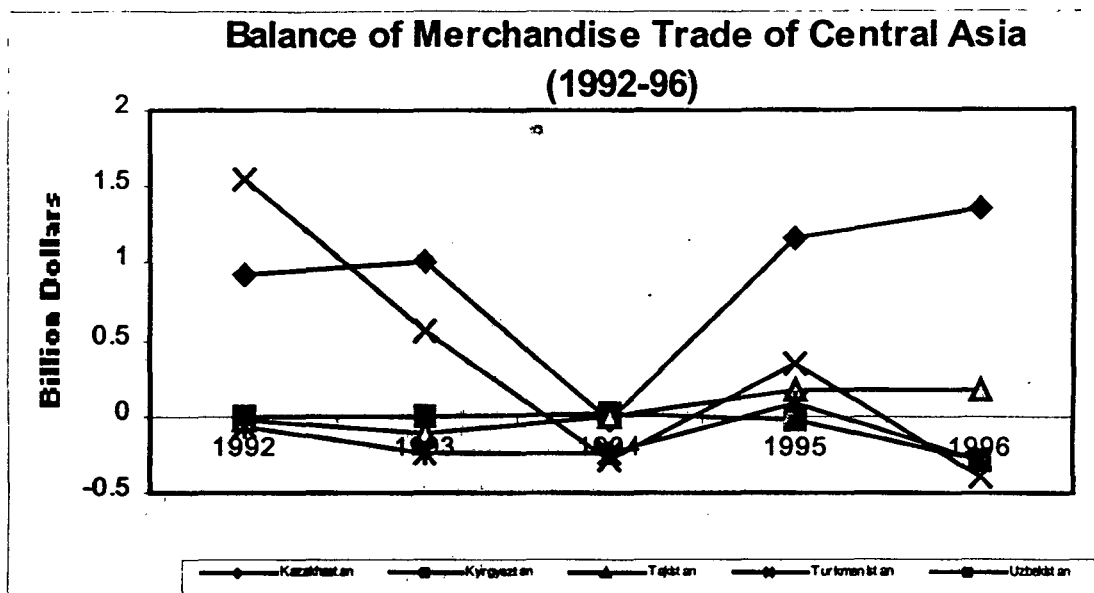


Table 3.10

**Balance of Merchandise Trade of the Central Asian States 1992-1996  
(Billion Dollars)**

	1992	1993	1994	1995	1996
<b>Kazakhstan</b>	0.930	1.007	-0.027	1.171	1.346
<b>Kyrgyzstan</b>	0.006	0.000	0.009	-0.029	-0.294
<b>Tajikistan</b>	-0.021	-0.111	0.002	0.176	0.163
<b>Turkmenistan</b>	1.555	0.548	-0.288	0.332	-0.386
<b>Uzbekistan</b>	-0.060	-0.237	-0.236	0.082	-0.291

Source : Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

## Foreign Direct Investment

As evident from the table 3.11, Foreign Direct Investments inflows into the Central Asian countries, increased in 1995. The emergence of Kazakhstan, Turkmenistan and Uzbekistan as the main recipient of the Foreign Direct Investment is notable, especially because Kazakhstan surpassing all the other Central Asian states put together.

**Table 3.11**

### Foreign Direct Investment in Central Asian States 1994-1995 (Million Dollars)

Reporting country	FDI inflows		Cumulative FDI		FDI flows/GDP (per cent)	FDI flow per capita
	1994	1995	1994	1995	1995	
<b>Kazakhstan</b>	519	859	847	1706	5.1	50
<b>Kyrgyzstan</b>	45	191	55	245	12.8	41
<b>Tajikistan</b>	12	13	29	42	2.2	2
<b>Turkmenistan</b>	103	233	182	415	7.8	57
<b>Uzbekistan</b>	72	120	160	280	1.2	5

Source : Economic Survey of Europe in 1996-97, Economic Commission for Europe, UN, Geneva.

The surge into Central Asian states which began in 1995 was most probably because of its improving micro economic environment and the normalisation of relations with foreign creditors and also partly because initiation of the structural change in the economic reforms and more conducive economic



environment for the foreign investments. However, there was only a small increase in Tajikistan's Foreign Direct Investments. There has been increase in Kyrgyzstan's Foreign Direct Investments also ( Fig. 3.11 & 3.12 ). It seems that there are future prospects of Foreign Direct Investment due to vast untapped natural resources present there.

**Figure 3.11**

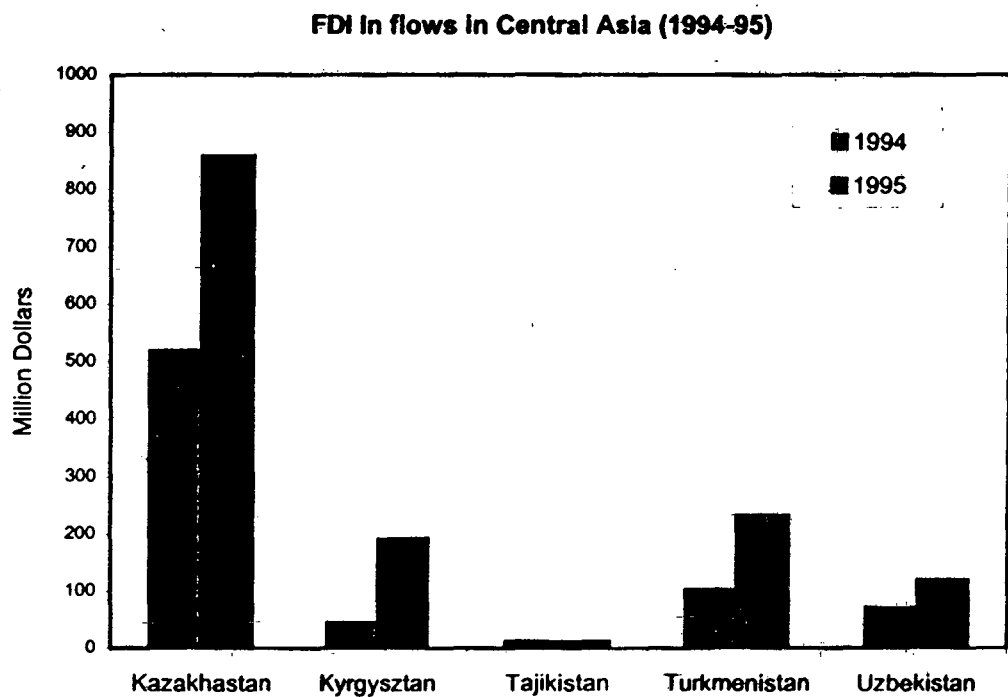
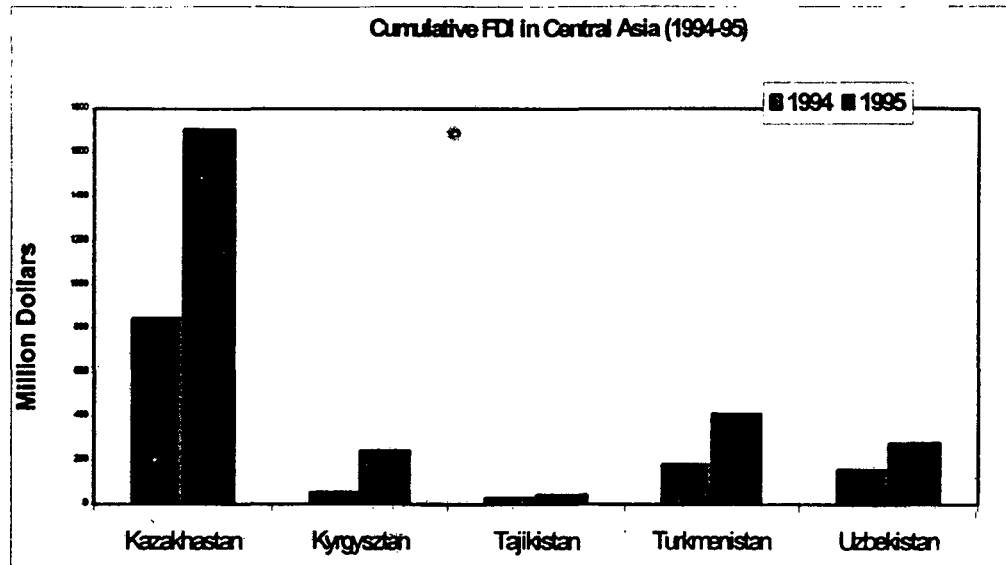


Figure : 3.12



### Relative share in various sectors of economy

After the initiation of structural changes in Central Asian states economic reforms, there has been change in relative share of various sectors of economy in GDP. It is also important to mention that primary sector includes the activities like agriculture, fishing etc. and secondary sector incorporates mining, manufacturing and construction, whereas remaining activities such as banking and administration services etc are included in tertiary sector. In order to measure the change, following formula has been applied.

$$\text{Change} = \frac{[\text{GDP}_f - \text{GDP}_b]}{\text{GDP}_b} \times 100$$

Where,  $\text{GDP}_f$  = share of particular sector in the final year

$\text{GDP}_b$  = share of particular sector for the base year.

Where, 1991 has been taken as base year and 1995 and 1996 (as suitable) as final year. Using the formula, change in the proportional share of various sectors i.e. primary, secondary and tertiary sector, have been calculated.

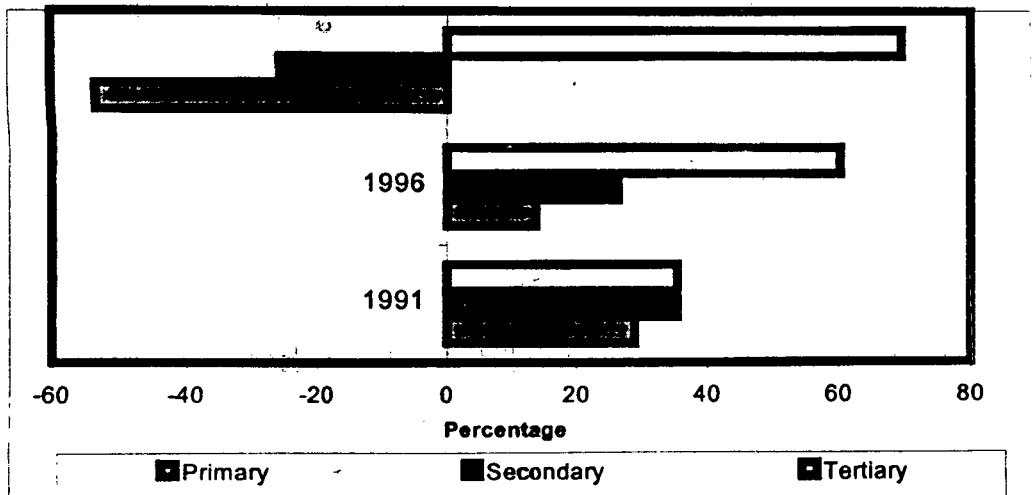
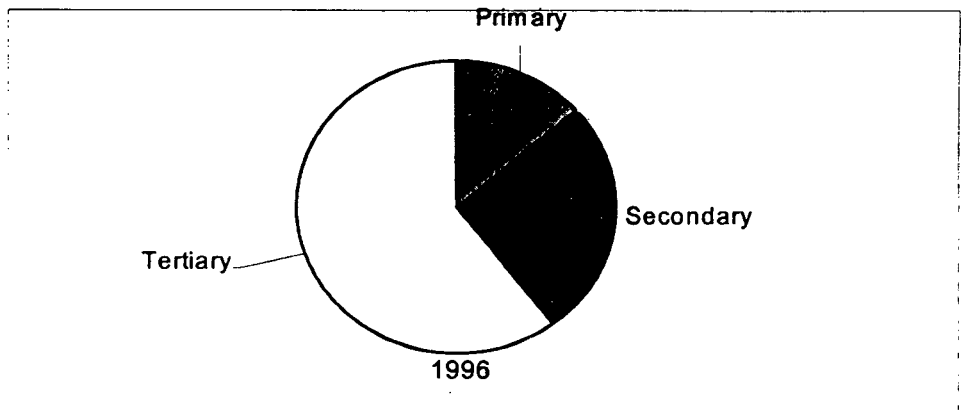
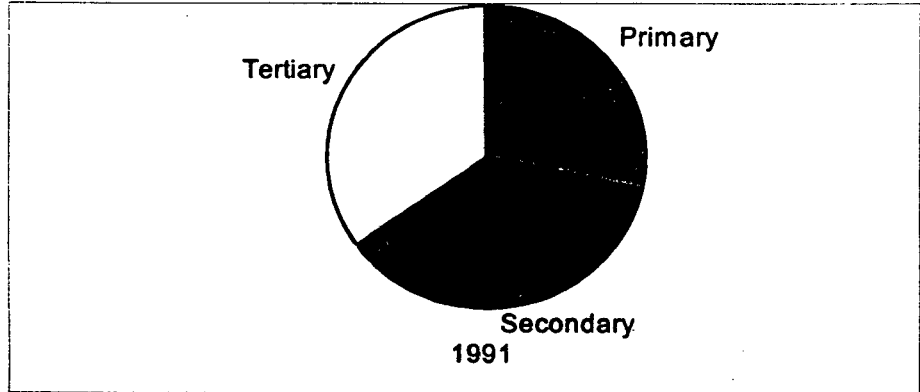
**Table 3.12**

**Relative Share of Various Sectors of Kazakh Economy  
(Share in GDP in percent)**

<b>Sectors</b>	<b>1991</b>	<b>1996</b>	<b>Change</b>
<b>Primary</b>	29.0	13.5	-53.44
<b>Secondary</b>	35.5	26.3	-25.91
<b>Tertiary</b>	35.5	60.2	+69.57

Kazakhstan clearly shows a negative change in the relative share of its primary and secondary sector in GDP (table 3.12), over the years while primary and secondary sectors respectively experienced -53.44 percent and -25.91 percent change. But there has been positive change in the tertiary sector because of the economic reforms. Foreign Direct Investment and consequent increased importance of service sector over the years have led to positive change of 69.57 percent in service sector ( Fig. 3.13 ).

**Figure 3.13**  
**Relative Share of Various Sectors in Kazakh Economy**



**Table 3.13**

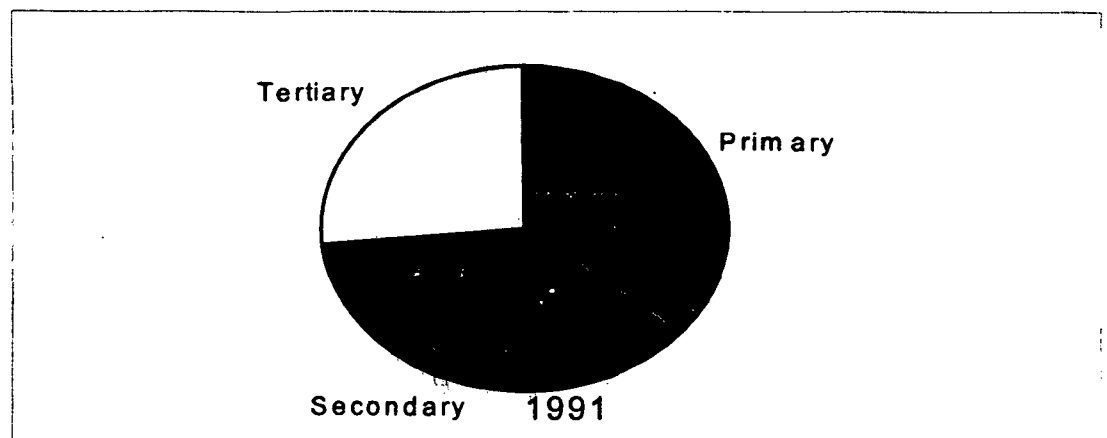
**Relative Share of Various Sectors of Kyrgyz Economy  
(Share in GDP in percent)**

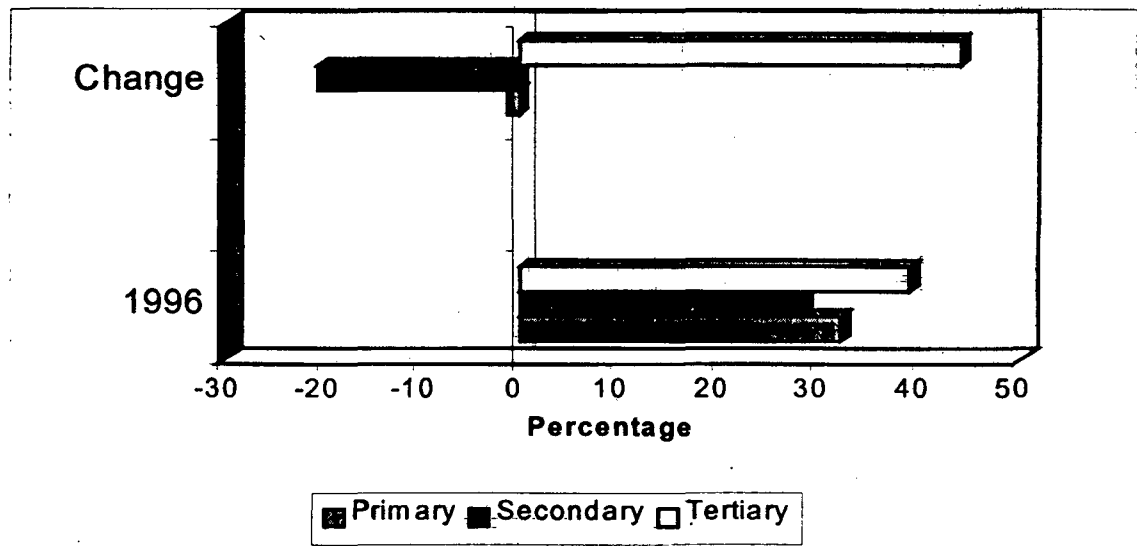
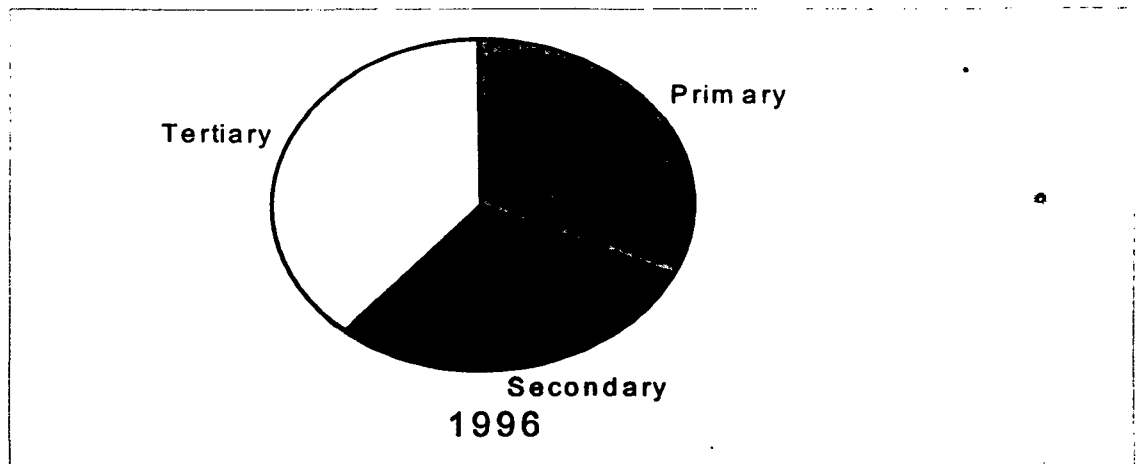
<b>Sectors</b>	<b>1991</b>	<b>1996</b>	<b>Change</b>
<b>Primary</b>	36.9	32.3	-1.24
<b>Secondary</b>	35.9	28.5	-20.6
<b>Tertiary</b>	27.2	39.2	+44.11

Table 3.13 clearly indicates that there has been a negative change in the relative share of primary and secondary sectors in its GDP and a positive change in relative share of tertiary sector of Kyrgyzstan. However, over the year there has been negligible change in the share of primary sector, while secondary sector experienced -20.6 percent change. Tertiary sector, however experience a positive change of 44.11 percent in Kyrgyzstan ( Fig. 3.14 ).

**Figure 3.14**

**Relative Share of Various Sectors in Kyrgyz Economy**



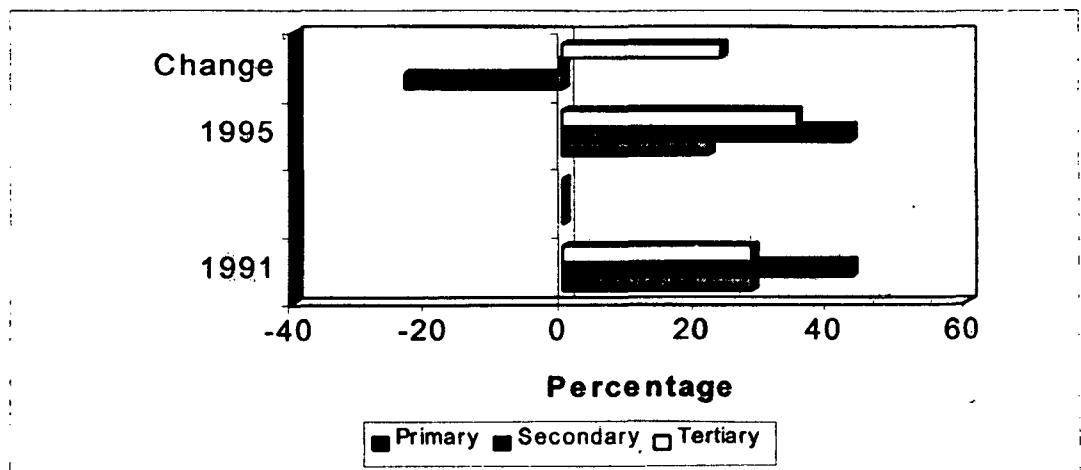
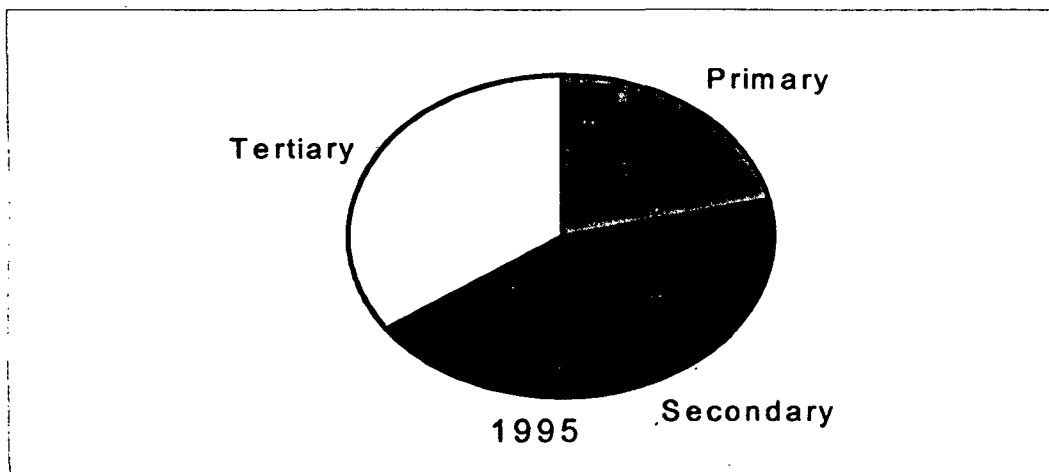
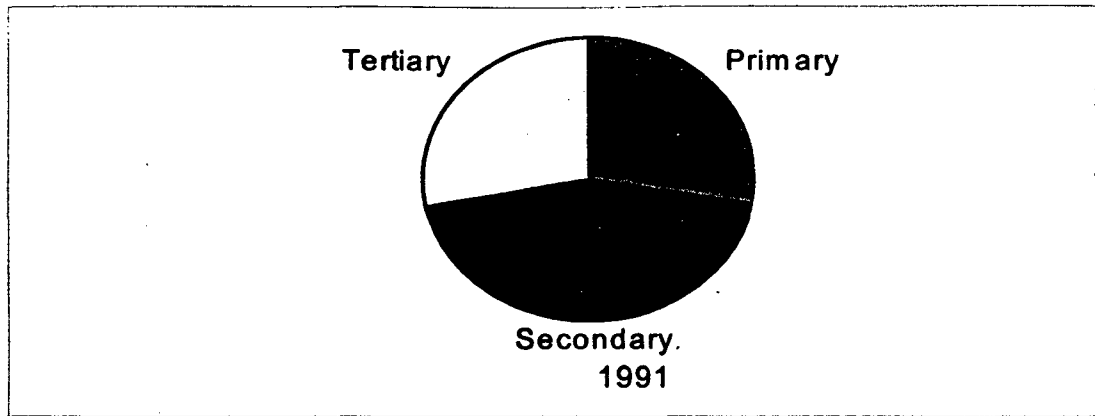


**Table 3.14**  
**Relative Share of Various Sectors of Tajik Economy**  
**(Share in GDP in per cent)**

Sectors	1991	1995	Change
Primary	28.29	21.7	-23.29
Secondary	43.23	43.1	-0.30
Tertiary	28.48	35.2	+23.85

**Figure 3.15**

**Relative Share of Various Sectors in Tajik Economy**



Tajikistan economy have clearly shown a negative change in the relative share of its primary and secondary sectors in GDP and a positive change in relative share of tertiary sector( table 3.14). Since 1991, however there has been negligible change for secondary sector. While primary sector have experienced -23.29 percent change, tertiary sector have registered a positive change of 23.85 percent in Tajikistan's economy ( Fig. 3.15 )

**Table 3.15**

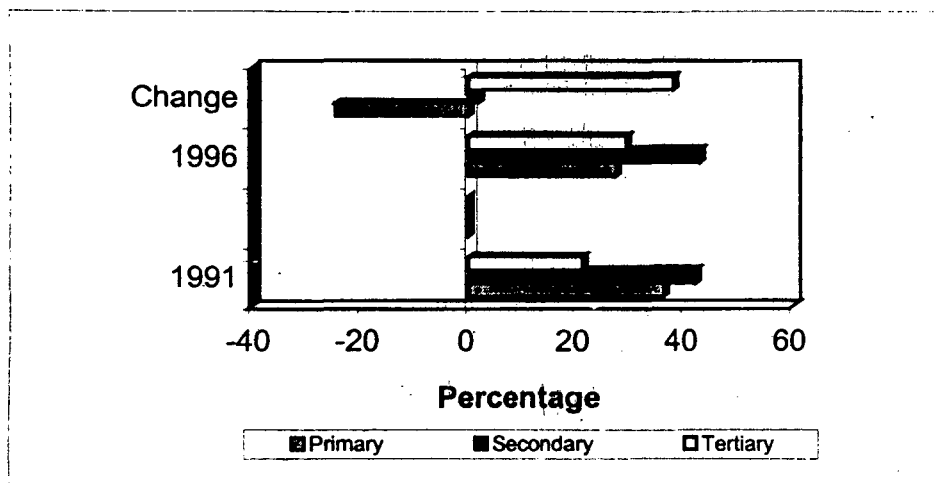
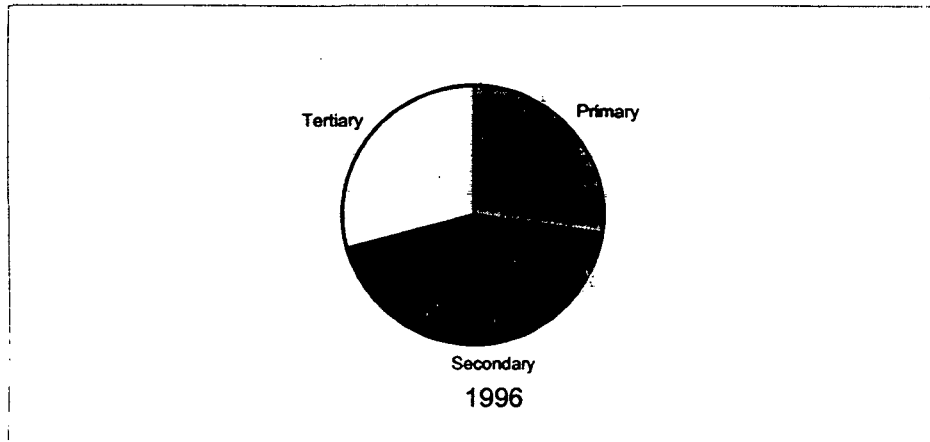
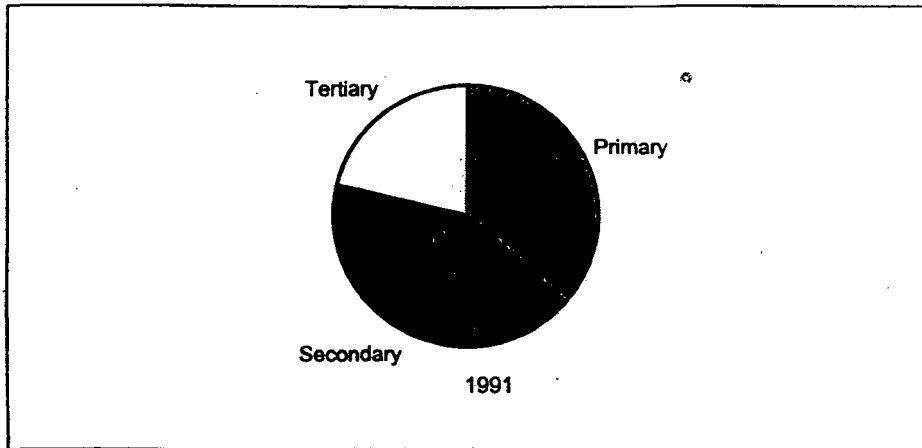
**Relative share of Various sectors of Turkmen Economy  
(Share in GDP in per cent)**

<b>Sectors</b>	<b>1991</b>	<b>1996</b>	<b>Change</b>
<b>Primary</b>	36.41	27.50	-24.47
<b>Secondary</b>	42.29	43.09	+1.89
<b>Tertiary</b>	21.3	29.41	+38.07

As shown in the table 3.15 Turkmenistan's economy has shown negative change in relative share of primary sector, in GDP and positive change in relative share of Tertiary and secondary sectors. However, there had been negligible change as far as the relative share of the secondary sector is concerned, while primary sector has experienced -24.27 percent change. Tertiary sector, experienced a positive change of 38.07 percent in Turkmenistan's economy ( Fig. 3.14 ).



Figure 3.16  
Relative Share of Various Sectors of Turkmen Economy



**Table 3.16**

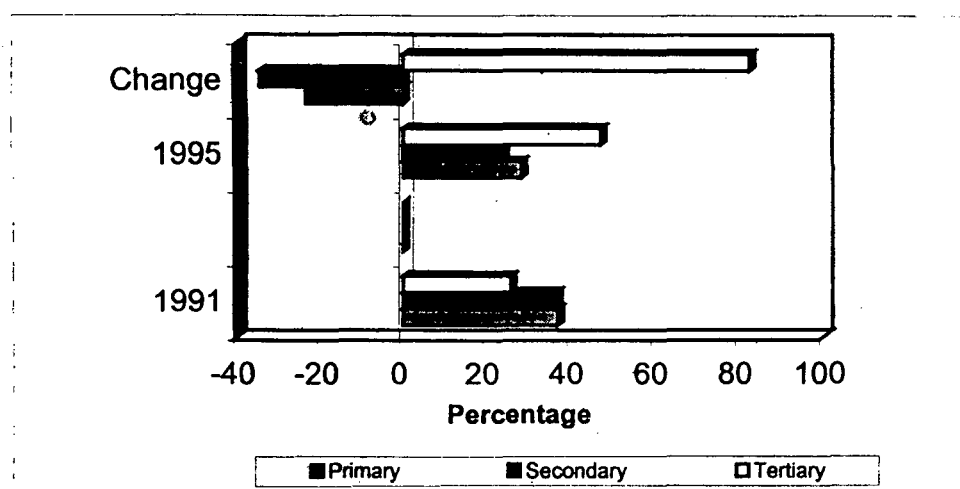
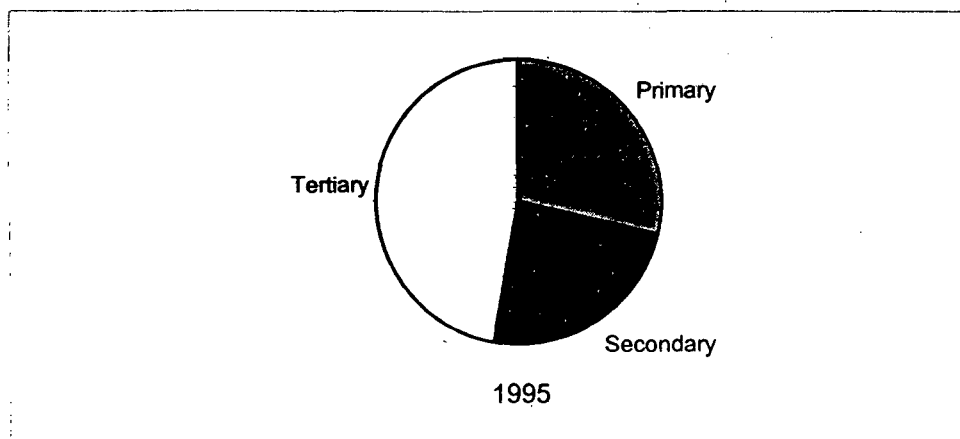
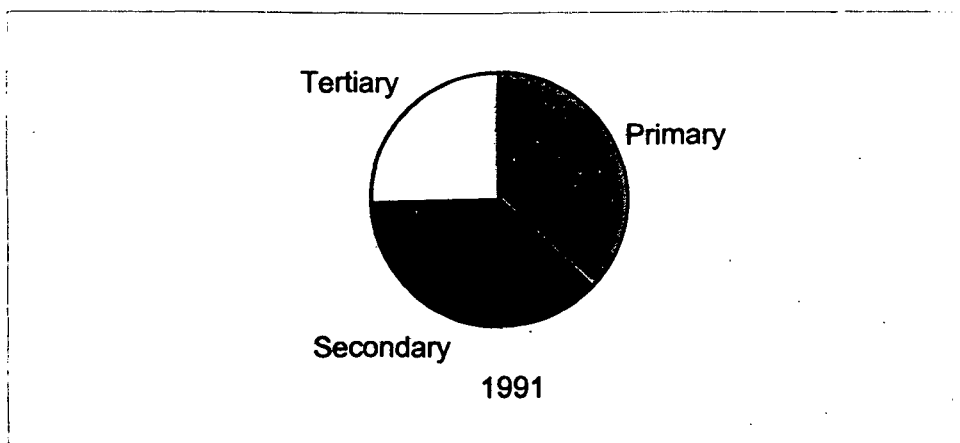
**Relative Share of Various Sectors of Uzbek Economy  
(Share in GDP in per cent)**

<b>Sectors</b>	<b>1991</b>	<b>1995</b>	<b>Change</b>
<b>Primary</b>	37.2	28.5	-23.38
<b>Secondary</b>	36.9	24.2	-34.41
<b>Tertiary</b>	25.9	47.3	+82.62

It is quiet evident from the table 3.16 that there has been a negative change in the relative share of Uzbekistan' s primary and secondary sectors in GDP and a positive change in relative share of its tertiary sector. Over the years, while primary and secondary sectors experienced -23.30 percent and -34.41percent change respectively. Tertiary sector on contrary however experienced a massive positive change of 82.62 percent (Fig. 3.16 )

Overall it is estimated that the structural change brought in through economic reforms have also affected the relative growth of sectors in Central Asian economies. The primary sector has generally experienced a negative change during the time in question in their relative share in GDP because of Agriculture suffering from low efficiency and lower level of technology. Thus, it can be said that primary sector still faces chronic under-investment and low product prices and lacks sufficient reforms.

Figure 3.17  
Relative Share of Various Sectors in Uzbek Economy



The secondary sector also suffered like primary sector. Relative contribution of the Central Asian economies respective to the GDP has shown a negative change except for Turkmenistan which has shown a positive change.

But the positive changes have been noticed only in the tertiary sector. Since the structural changes brought in there has been opening up of the market processes thus facilitating the quick entry of private sector in the Central Asian economies.

## **CONCLUSION**

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Any change in the political sphere necessarily brings out changes in the economic and social spheres as well. With the collapse of communism and the demise of the all powerful erstwhile while Soviet Union, the mighty commands were mercifully gone.

The disintegration of the Soviet Union and the abolition of the system of centrally planned economies and the emergence of new governments in Central Asia were seen as symbols of glorious times to come. The authoritarian rule has given way to liberty and concept of market economy. Mikhail Gorbachev's policy of 'perestroika' gave a major thrust to economic reforms in Russia in early 80s. But the actual process of economic reforms gained momentum only in 1989-1990, when the former Soviet Union itself also took steps for the implementation of the policy on economic reforms.

These economic reforms in former Soviet Union did no good for the economy and resulted in its downspin, resultant at the same time there was breakup of Soviet Union, with around fifteen republic breaking up from it, and becoming independent. Central Asian states have also gained political independence, but with that they also have to inherit a economy in dire straits and further witnessed a decline in national output, trade, low prices and growing burden of debts.

Thus, as observed, the process of economic reforms was initiated in Central Asian states with multiple objectives after the dissolution of Soviet Union in 1991. In ideological terms, economic reforms were expected to transform the economy from socialist to capitalist. Structural changes were also initiated in Central Asian economy to accelerate the pace of the change in the economic structure so that it can be made more market oriented and conducive to economic activities.

What is observed that these Central Asian states have undertaken various measures. Economies have undertaken internal restructuring to adopt the market forces characterising the transition period from centrally planned to market economy.

The various measures which have been taken were privatisation of state owned assets, from which it was expected that these will serve the purpose of transfer of ownership rights from the state to the individuals. Analysis show that devolvement of central economic decision making from central state to local and non-state institute characterise the transition period.

As observed, the process of privatisation has proved to be a source of income through large-scale sale of state property and assets. Privatisation, to a large extent had served an important objective of the Central Asian states in reducing the government expenditure on maintaining state enterprises, many of which were inefficient.

It has been observed that enterprises are more flexible when they have autonomy. They can keep the track of changing circumstances and market undercurrents. The radical reforms have resulted in independent decision making and active entrepreneurship in enterprises. This has resulted in profound structural changes and improvement in economic performance.

Study indicates another drawback of distorted price structure inherited from the past. Absence of realistic price structure for the inputs and outputs of the enterprises has also been observed. All the Central Asian states were thus trying to solve these problem through the policy of price - liberalisation.

Though privatization had been very successful in Central Asian states, the success of privatisation is directly linked to liquidation of inefficient enterprise and the solution of subsequent socio-economic problems - unemployment, distribution of assets, technical retraining of labour forces, providing employment opportunities, social security etc.

It has been visualised that these countries lacked the basic infrastructure when the transition commenced. Since then, the countries have made considerable progress in establishing the infrastructure required for the success of privatisation. The institution of the capital market (like the stock exchange, specialised banking, financial services etc) have mushroomed.

But still there is long way to go. The financial sector has not made significant improvement in institution of financial intermediation. It has been noticed

that inefficient mono-banking system, which controlled the financial flows is replaced by two-tier banking system and other banks were also introduced.

Some new developments were observed. The new agreements were signed between various states with US, British, French, Italian, South Korean multinationals which were interested in the wide natural resources possessed by these countries. These development will go long way in further increasing Foreign Direct Investments (FDI) in these countries and the region as a whole.

Another development observed in the current radical economic reforms is transformation of agricultural sector . This was a more to remedy injustices inflicted by collectivisation and nationalisation of the original private farms. Thus eliminating the distorted efforts of state ownership on the agricultural sector.

Study revealed that trade had suffered with the collapse of Soviet Union and CMEA markets. The foreign trade has shirked. To overcome this, Central Asian states signed many new agreements such as ECO along with Iran, Turkey etc and other agreements with China and South Korea to improve the trade relations and looking for more trading partners outside the former Soviet Republics.

Thus, the tempo of economic reform and structural changes has picked up in these states and started making considerable progress. The process of structural changes initiated in 1991 i.e. since independence, has completed



around six to seven years. Although these years are not a very long period to assess the impact of structural changes, it cannot be considered as too short a period to merit evolution. An effort has, therefore, been made to assess the impact of structural changes and reform measures on the Central Asian economy.

Thus the economic reform process was oversimplified in these Central Asian states. It may take a much longer period, say ten or more years to achieve the principle objectives of these measures. The process of 'trial and error' will be long and will cost more than anticipation but the experience gained by the actors in today's transformation should enable them to choose the most effective 'organisational model'.

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