ECONOMIC TRANSITION IN CENTRAL ASIA: A COMPARATIVE ANALYSIS OF KAZAKHSTAN AND UZBEKISTAN

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

MASTER OF PHILOSOPHY

VISHAL DUBEY

CENTRE FOR RUSSIAN, CENTRAL ASIAN AND EAST EUROPEAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110067
INDIA

2002

JAWAHARLAL NEHRU UNIVERSITY
SCHOOL OF INTERNATIONAL STUDIES
NEW DELHI - 110067, INDIA

Tel. : 6107676, 6167557
Extn. 2365
Fax : (+91)-11-6165886
(+91)-11-6198234
Cable : JAYENU

Centre for Russian, Central Asian and East European Studies

22 July 2002

CERTIFICATE

This is to certify that the dissertation entitled ***Economic Transition in Central Asia: A Comparative Analysis of Kazakhstan and Uzbekistan*** submitted by **Vishal Dubey**, in partial fulfillment of the requirements for the award of the degree of ***Master of Philosophy***, is his own work, and has not been previously submitted for any other degree in this or any other University.

We therefore, recommend that this dissertation be placed before the examiners for evaluation.

PROF. SHASHIKANT JHA
(Chairperson)

DR. GULSHAN SACHDEVA
(Supervisor)

For

My Beloved

Father & Brother

With Remembrance and Memories

CONTENTS

Acknowledgement

Let me take this opportunity to acknowledge the support of my guide Dr. Gulshan Sachdeva who has been a constant source of inspiration all through my work. His understanding and his co-operative nature made my task look a lot easier. His longstanding research experience provided the stimulus for my thoughts to take a proper shape.

I am grateful to the Chairperson, faculty members and staffs of my centre for their co-operation while writing this dissertation.

I also acknowledge the moral support of my mother, Prabha Dubey, my brother Ganesh Dubey, my brother-in-law Indra Dutt Sharma, my sister Alka Sharma, my sister-in-law Sonal Dubey. I am thankful to all my relatives for their support and co-operation.

Special thanks to Ashok, Jasbeer, Vinay, Sunny, Moti for taking the responsibility in typing the manuscript of this dissertation.

My thanks are due to staffs of JNU library, IDSA library, Exim Bank Library, ICSSR library for their co-operation in assessing the relevant materials.

I would like to thank Praveen Kumar and Puneet Kaushik who have been a constant source of inspiration all through my work. I am unable to express my gratitude adequately for Prof. A.K. Jain of Vardhman Degree College, Bijnor. I have no words to extend my heartiest thanks to all my other friends and well-wishers for their never ending help, encouragement and suggestions.

Vishal Dubey

22 July 2002 ***Vishal Dubey***

Chapter - I
Introduction

In the first half of the twentieth century, countries like Russia, Mongolia, China, North Korea, Vietnam Central and Eastern Europe, seceded from market economy and adopted an alternative economic system i.e. a socialist system. A massive effort was made to centralize control of production and allocate resources through planning. However, centrally planned economies failed due to intrinsic inefficiencies. The death of seventy long years of social experiment in Former Soviet Union (FSU) took the world by surprise.

In response, most of these countries have started a transition towards decentralized market mechanisms characterized by private ownership. They seek to rebuild themselves and integrate in the world markets. However, the path to reforms has not been synonymous and countries involved are, having different histories, cultures and resource endowments. There are tremendous variety in departure point, strategies and outcomes of transition. The past ten years have given a lot of experiences to study. Thereby making it necessary to draw proper lessons from both positive and negative developments for better meeting the challenges of continuing transformation and globalization.

The reform strategy advocated by the West, meant an over-emphasis on uniform tools of macro economic stabilization and restructuring, neglecting the consideration of peculiar roots of each individual economy. Priority has been given to short-term objectives rather than long term strategic goals of development. Many scholars however, feel that an evolutionary economic approach, with its focus on the origin and sources of development of different processes and causes of their transformation has been missing. The former approach is occupied with the regularities of functioning in market economies, while the latter approach is concerned with mechanisms of their formation and evolution from one level of economic development to the other. According to J. Stiglitz,[1] "failures of the reforms in Russia and other countries of the former Soviet Union were not just due to sound policies that had been poorly implemented. Their roots went deeper, to a misunderstanding of the basics of an institutional reform process. The limited success in so many of the countries in transition also meant that there remained many opportunities for applying better policies." Both approaches are complementary and exaggeration of one of them could lead to loss of balance required for comprehensive research and policy recommendations.

The policies implemented in countries under transition were fraught with completely different, implications and consequences. All of them, to an extent faced major transition traps e.g. high inflation, huge fiscal deficits, transformational recession, de-industrialization and rapidly growing poverty. The rapid disruption of the existing state system, which regulated foreign economic relations immensely increased vulnerabilities to external trade, financial shocks, chronic current account deficit and foreign debt. These traps were larger in countries, where the dichotomies between policies implemented and initial conditions were bigger.

The five former states of Soviet Central Asia – Kazakhastan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan – extend from Caspian Sea in the west to China in the east and from Central Siberia in the north to Afghanistan and Islamic Republic of Iran in the south, covering an area of one-fifth of Russia's total land area. The region is rich in natural, agricultural, mineral, and fuel resources.

---

[1] J. Stiglitz, "Whither Reforms? Ten Years of Transition. Keynote Address", *Annual World Bank Conference on Development Economics*, (Washington D.C., World Bank, April 1999), p.1.

After the collapse of Soviet Union on which they depended heavily, these countries were faced with the challenge of how to exploit their resources effectively while moving towards a market economy and integrating themselves with rest of the world. Since the nineties all five countries in the region have worked toward exploiting their resources properly while moving their economics towards a market framework. These countries have decentralized their economies; expanded international links and diversified production and trade. But considerable ground has still to be covered in a number of areas. Private sector share is less than half in most Central-Asian states and banking system continues to be heavily state controlled. Moreover, per capita FDI had been low in all five countries except Kazakhastan, considerable catching up is needed in Tajikistan, Turkmenistan.

The early years of transition in Central Asia was characterized by sharp output declines, employment and real income losses, erosion in living standards due to structural dislocations which was aggravated by high inflation resulting from price liberalization and monetization of large fiscal deficits to sustain output and employment, notably after introduction of new currencies. The wage erosions were compensated by generous consumer subsidies and income from informal market activity. With loss of transfers from Soviet Russia, they were forced to implement major fiscal structural reforms to meet their stabilization objectives. After introduction of new currencies they intensified efforts to stabilize their economies and were able to reduce inflation rates from as high as four digit levels. All countries have adopted monetary stabilization with some exchange rate flexibility being allowed under managed floats. Under these programmes burden of adjustment has fallen on fiscal adjustment, which entailed cuts in expenditure and tightening of budget on state enterprises.

Trade liberalization also contributed to growth in Central Asian Republics at first by re-instating steady import supplies and in the long run by improving efficiency of resource allocation, helping diversification, ensuring greater transparency in the trade of system. Progress with structural reforms has been mixed among Central Asian Republics. Controlled prices were maintained for essential foodstuffs, energy public transportation and utilities. Privatization has progressed considerably in fast reformers with first stage of small-enterprise privatization almost complete to mass privatization of medium and large-scale enterprises. Encouraging progress has been made in agriculture sector by land lease programmes. Legal and regulatory reforms have proceeded in piece meal fashion with only Kazakhstan and Kyrgyzstan making progress. Recently both the countries have focused on reforming their financial systems.

During, the last decade when most of the countries were busy in systemic transformation, difference of opinion started emerging on the speed of reforms. Those who advocated quick changes i.e. Shock-therapists, were obsessed with the neoclassical economics and according to their view, market economies are perfect. The slow reformers called 'Gradualists' took evolutionary approach to institution building. Two countries in Central Asia, Kazakhstan and Uzbekistan adopted different reform strategies. Kazakhstan adopting a big bang approach and Uzbekistan adopting a state-led gradual approach. Comparison between these two countries could help delving deep into the significance of each type of reform strategy. Recently, some criticism is building up against the 'big-bang' approach adopted in Central Asia and other former Soviet-Union states. However, there are no good or bad policies. Neither, the policies implemented were the only alternative nor they were the only evils. It is just that different policies may suit different countries with different initial conditions.

The methodology involved is analysis, by scholars who attempted a critical review of economic transition not only in central Asia but in other regions of the world. It also took into account the available literature on the on-going process of economic restructuring. To gain a balanced view of the perspective, reports published by IMF. World Bank, ADB, and other independent sources are also examined. The study is based on data analysis of statistics appearing in the primary as well as secondary sources.

In the second chapter, the study has examined the theoretical aspect of reforms. It takes into account the shortcomings of the neo-classical economics in underpinning reforms and explores an alternative emerging field of evolutionary economics. Lastly, the debate between big-bank and gradualism is discussed.

Chapter III examines the reforms in the Central Asian states during the last decade. It examines the stabilization measures undertaken, structural reforms, fiscal reform and the External Sector Reforms. Lastly, the growth performance and employment situation is examined in all Central Asian States. The performance is assessed by the data taken from Asian Development Bank, IMF and other sources.

Chapter IV provides the comparative analysis between two countries; Kazakhstan which adopted a big-bang type of approach and Uzbekistan a gradualist approach. The analysis shows tens years of experience in these two countries. Lastly, the reasons for adopting specific approaches to reform are analysed. It shows that the initial conditions in these two countries were different which led them to adopt different approaches.

Chapter V analyses the ten years of reform experience in the Central Asian States. It analyses the reform strategy adopted by Kazakhstan in comparison to Uzbekistan and their outcomes, drawing conclusions for the validity of neo-classical economics against the evolutionary economics. It prescribes that in future strategies prescribed should be a mix of both the above approaches and finally prescribes future strategies for the five Central Asian States.

Chapter II
Economics of Transition

After the disintegration of Soviet Union in 1991, centrally planned economies have ceased to exist.[1] The system was far less stable than it seemed because planning involved intrinsic inefficiencies. Planning became a personalized bargaining process, proving bad for industry and agriculture. Emphasis was laid on development of heavy industries, while development of consumer goods industries lagged behind. Decades of bureaucratic allocation created serious distortions, with heavy industry sector massively over built while light industry and services sector severely repressed. Prices were not determined by market forces but by central planning board, reflecting implicit and explicit subsidies. Energy, housing, public transports and staple foods were cheap while consumers manufactures were costly if available at all. Shortage allowed firms to operate in seller's market, reducing incentives to improve quality. With state ownership and lack of property rights, firms had little reason to use inputs efficiently and strong incentives to board labour and raw materials. Paternalistic behaviour and soft budget constraints ensured that many firms added negative values; where at world prices the cost of their inputs would have exceeded value of their output. All this brought deep inefficiencies of planning over time. Despite the increasing share of investment in GDP in former USSR, growth rate declined from 10 percent in the 1950's to 2 percent in the 1980's while virtually contracting in the 1990.[2]

To conquer stagnation and launch economic growth in the devastated socialist economics, transition was desired to put countries in question on path of sustainable growth. The long-term goal of transition is to build a thriving market economy capable of delivering economic growth. It is a systemic change from Centrally Planned Economies (CPE)

---

1 Even, in so-called socialist countries like China & Vietnam, economic co-ordination has shifted to a great extent from state intervention to market allocation.

2 World Bank, "From Plan to market", *World Development Report 1996,* (Washington DC, Oxford University, Press, 1996), pp.1-6.

to market economies, involving a complex process of creation, adaptation and destruction. The shortage economy is replaced by an economy of choice with repressed sectors growing rapidly and over built sectors contracting fastly. Property rights are formally established and wealth cease to be state owned and controlled. Old institutions and organization are either replaced or evolves requiring new skills and attitudes. Relationship between citizens and state changes with greater freedom of choice.[3]

The Elements of Transition

The transition policy as proposed by neo-classical economists was based on the so-called Washington Consensus focusing on liberalization, privatization macro-economic stabilization and opening of post-socialist economies. The elements of reform are enumerated in the Table. 1. The objective of stabilisation is to reduce inflation either by reducing fiscal deficit or tightening monetary policy. It is a short-term objective acting on the demand side of the economy. Structural reforms on the contrary contribute to growth in long-term by acting on the supply side of the economy. They aim at restructuring, commercialization and privatization of state enterprises and enforcing on them financial discipline. External sector reforms aims at diversifying trade, liberalizing prices and capital inflows.

---

3 Ibid.

Table 1: Elements of Transition

1. Fiscal Adjustment	a. Reduce Fiscal Imbalances without Recourse to Inflation Tax b. Reduction of government payment arrears c. Reduction of Quasi-fiscal operations by banks to public sector.
2. Stabilization	a. Reduction of inflation b. Reducing fiscal and cement account deficits c. Tightening of Monetary Policy d. Central Bank independence.
3. Structure Reforms	a. Price Liberalization b. Enterprise reform Rehabilitation of State Enterprises Privatization of State Enterprises Enforcement of Financial Discipline on state Enterprises Legal and Institutional Reforms c. Financial Sector Reforms d. Fiscal Reforms Reforming Budget Process Expenditure Prioritization and Reforms Tax Policy and Tax Administration Reforms.
4. External Sector Reforms	a. Liberalization of Foreign Trade Prices b. Reform of the Trade System c. Market Diversification d. Phasing out of Barter Trade e. Currency Reform and Exchange Regimes f. Liberalizing Capital Inflows g. Allowing Foreign Direct Investment h. Management of External Debt.

Source: Gurgen Emine, et.al., "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenista and Uzbekistan", *IMF Occasional Paper No. 183*, 1999.

However, the early Washington consensus was aiming at countries that already had market economy and were not just in transition to such a system. The Consensus was catalyzed by the experience of Latin American countries in the 1980's[4] and was missing crucial elements necessary for

[4] Stiglitz, Joseph, "More Instruments and Broader goals: Moving Toward the Post-Washington consensus", (WIDER Annual Lectures 2, 1998).

systemic overhaul, stabilization and growth. These included elements of institution building, improvement of corporate governance, prior to privatization and redesign of role of state instead of its urgent withdrawal from economic activities.

The partial failure of Washington Consensus with regard to transition economies must be linked to neglect of significance of institution building. In post-socialist countries organizations essential to a market economy were either distorted or did not exist, so the economy could not expand. Institution had to be developed from scratch since they did not existed under the centrally planned regime. Hence even with progress in liberalization and radical privatization there was still no positive supply response.

New institutional arrangements are of key importance for successful transformation. Many scholars have argued that the transition can be executed only in a gradual manner, since institution building is a gradual process based upon new organizations, new laws and changing behavior of various economic entities. It would be much wiser to manage the process of liberalization and privatization at a pace compatible with speed of human capital development. Otherwise market forces will not be able to shape economic structures and process, raise competitiveness and ability for growth. Dissonance between liberalization measures and institution building would create too much destruction and not enough creation as has happened in countries adopting radical approach.[5]

---

[5] Kolkodo, Gregorz W., "Ten Years of Post Socialist Transition: Lessons for Policy Reforms", (Washington DC, World Bank Development Economics Research Group, 1998), p.8.

Transition as an instrument of Development Strategy

After a decade of economic reforms in the former Soviet bloc it is realized that the long-term transition should be seen as a major instrument of development policy. Systemic changes only do not lead toward durable growth and sustainable development, since it is not the target but merely the path to a more important goal. The enormous contraction in most Eastern Europe and former Soviet Union countries is a result of deficiency of development policy and exaggeration of significance of transition. Policies focused only on stabilization measures, trade liberalization and privatization without paying much attention to events in the real economy i.e. output, consumption, investment, unemployment. This approach changed the initial conditions and caused contraction instead of growth. When one set of solutions has ceased to serve the purpose, another must replace it and take over. System ought to be flexible enough to meet challenge of changing circumstances. It adjusted several times in the past and will keep changing many more times in future; serving its development role.

It is also argued than high growth rate in China and Vietnam has been due to attention to development policy and treatment of market-oriented reforms as means for successful development. The system itself cannot serve as a substitute for good policy. In history we can see frequently, that it is sufficient to improve policies without overhauling an entire system.[6]

[6] ibid., pp.17-19.

The Theoretical Aspect of Reforms: Neo-classical Economics Vs Institutional Change

Capitalism has outperformed central planning. The central question that should be answered in reform plans is how does one explain differences in performance of centrally planned economies. The success of capitalism in the west, is an obvious source of ideas for reform. The institutions of capitalism comes in many varieties and there can be alternative reform paths.[7]

Though standard neo-classical theory provides an important input into the interpretation of comparative economic performance,[8] there is a continual debate over the extent of neo-classical theory as a theory for transition:

1. The Hayekian result that competitive prices are sufficient statistics for all relevant information, has been shown to be incorrect when information can be used to further an agent's own welfare or where acquiring and transmitting information is costly. The second welfare theorem[9] held out the promise that distributional decisions could be separated from allocational problems. But the theorem becomes irrelevant at least during transition, when private information affects both allocation and distribution, and can be used to improve a persons welfare, possibly at the expense of efficiency. In such

---

7 Murrel, Peter, "Can Neo-classical Economics Underpin the Reform of Centrally Planned Economies", *Journal of Economic Perspectives, vol.5,* no.4, 1991, p.59,60.

8 According to Stanley Fischer, "Competitive price equilibrium produce desirable results and government interference will generally lead to inefficient allocation of resources", see *The New Palgrave: A Dictionary of Economics*, (New York, Macmillan, 1987, p.26-29.

9 The issue of second welfare theorem is important since considerations of income distribution from privatization or stabilization tend to dominate the discussions of how to reform the productive apparatus.

conditions existence of equilibrium is problematical.[10] However if an equilibrium exits it must not be a market clearing one but involve credit rationing.[11] Pareto criterion becomes ambiguous with incomplete information. Informational problems are more central during transition than in a normal capitalist economy. The fact that neo-classical paradigm says little about real world institutions for dealing with information asymmetry and acquisition, is of marked significance in judging its applicability to designing of reforms.[12]

2. Unless one maintains assumption of complete set of Arrow-Debreu futures and risk markets, the use of neo-classical rationality leads to violation of information decentralization that is used to propound virtues of markets.[13] According to Arrow,[14] "the superiority of market over centralized planning disappears. Each individual agent is in effect using as much information as would be required for a Central Planner".

3. In CPE, there was lack of product variety. This shows that there is a scope for free market to improve welfare of consumers. But scale economies require limiting number of varieties. The competitive economy chooses on basis of profit criterion while efficiency requires maximization of consumer surplus. The superiority of one economic system over another must be based on examining

---

10 Rothschild, Michael and Joseph Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on Economics of Imperfect Information", *Quarterly Journal of Economics*, vol.90, 1976, pp.629-49.

11 Stiglitz, Joseph E., "The Causes and Consequences of the Dependence of Quality on Price", *Journal of Economic Literature*, vol. 25, 1987, p.29.

12 Murrel, P., n.7, pp. 61-64.

13 When future oriented decisions like entry and exit are made in absence of complete set of future and side markets economic agents from expectations about behavioiur of other argents resulting in a requirement of model for the whole economy.

14 Arrow Kenneth, J., "Rationality of Self and Others in an Economic System", In Robin M. Hoggorth and Melvin, W. Reder , eds., *Rational Choice: The Contrast Between Economics and Psychology*, (Chicago: University of Chichago Press, 1987), p.208.

bureaucratic costs of organizing production of many varieties versus the inability of a market economy to produce correct balance between economies of scale and variety.

The evidence suggests that invisible hand explanation is not a satisfactory way of understanding reasons why real world markets performed better than planned economies. A much broader concept than simple free market paradigm is needed to underpin reforms.

It is assumed that CPE are technically inefficient due to lax discipline, inadequate incentives, production on basis of fixed quotas, rather than cost minimization, hoarding of inputs in anticipation of future shortages, creation of units of inefficient size to minimize difficulties of control. Implicit in the hopes for reform in the assumption that market mediated exchange will turn attention to cost criteria and hence competitive equilibrium concept could provide a theoretical explanation for reforms if market economies used to be more efficient.

An excellent study by Peter Murrel[15] summarizes many points. E cites studies by Danilin. [16] Schmidt and Lovell[17] and Koopman,[18] which prove that CPE's were highly technically efficient. He also quotes Brada and King[19] has concluded that differences in agriculture in capitalist and socialist countries must be explained by features of environment in which

15 Murrel, Peter, "Can Neo-classical Economics Underpin the Reform of Centrally Planned Economies?", *Journal of Economic Perspectives*, vol.5, no.4, Fall 1991, pp.59-76

16 Danilin, V.I, et.al, "Measuring Enterprise Efficiency in Soviet Union: A Stochastic frontier approach", *Economica,* May 1985, 52, 225-33.

17 Schmidt, Peter and C.A. Knox Lovell, "Estimating Stochastic production and cost Frontiers when Technical and Allocative Inefficiency are correlated", *Journal of Econometrics*, May 1980, 13, p.83-100.

18 Koopaman, Robert B, *Efficiency and Growth in Agriculture: A Comparative Study of the Soviet Union, United States, Canada and Finland.* (Agriculture and Trade Analysis Division Economic Research Service US Department of Agriculture, Staff Report No. AGES 89-54, 1989).

19 Brada, Josef C. and King, Arthur, E., "Is Private Forming More Efficient than Socialized Agirculture?", Arizona State University, 1991.

firms operate rather than on incentive effects of ownership. He argues that studies by Rosefielde[20] and Murrel[21] show that Soviet trade appeared to be based on fundamental comparative advantage and is consistent with neo-classical theory of comparative cost and is in greater accordance with Hecksher-Ohlin model than average OECD nation. However inadequacies seem to appear when trade patterns are examined from perspective other than neo-classical trade.

On question of Allocative efficiency in use of productive inputs, he cites Thornton[22] who calculated that an efficient reallocation of capital and Labour would produce on extra 2.9 per cent of industrial value added in 1960. Whalley[23] had estimated using varying elasticity of substitution, that efficiency loss could be as low as 1.5 per cent. Whitsell[24] finds that if Soviet Union were to achieve US level of allocative efficiency, GNP would increase by 2 per cent, hardly an amount to encourage overthrow of socio-economic system.

Hence, it is argued by above scholars that Neo-classical economics is hardly a strong candidate for theoretical aspect of reforms. Mainstream neo-classical economics with its basic assumptions such as maximizing behaviors, stable preferences, market equilibrium neglects the importance of learning processes, institutional choice and transaction costs especially

---

20 Rosefielde, Steven, *Soviet International Trade in Hecksher-Ohlin Olilin Perspective: An Input-Output Study*, (Lexington: Lexington Books, 1973).

21 Murrel, Peter, *The Nature of Socialism: Lessons from East European Foreign Trade*, (Princesnton: Princeton University Press, 1990).

22 Thornton, Judith, "Differential Capital Charges and Resource Allocation in Soviet Industry", *Journal of Political Economy*, May/June 1971, 79, pp.545-61.

23 Whalley, John, "Thornton's Estimates of Efficiency Losses in Soviet Industry: Some Fixed Point –Method Recalculations," *Journal of Political Economy,* February 1976, 84, pp.153-59.

24 Whitsell, Roberts., "Why does the Soviet Economy Appear to be Allocatively Efficient?" *Soviet Studies*, April 1990, 42, p.259-68.

relevant for transition processes.[25] Therefore in order to explain economic phenomenon of transition, neo-classical economics must be combined with theories which can offer solutions in the fields it neglects.[26]

Sequencing and Pacing of Reforms

There cannot be a blueprint of any linear sequence of individual policy changes in the transition process considering comprehensive system reform. The details of the reform path to be followed by a country depend on the state of the economy, on tolerance of the population for disruption that accompany the reform process and on political situation in each country.[27] Choices are always necessary given the limitations on government's time focus and resources. However one of the approaches widely used was that reforms expected to be more popular should start first.[28] However we can draw certain conclusions from ten years of experience.

---

25 In. Rasto Ovin, "The nature of Institutional Change in Transition," *Post Communist Economies*, vol 13, no.2, 2001, p.134.

26 Examples of this can be extension of neo-classical theory to study of institutions [Van Ees, H. and Garret Sen, H., "The Theoretical Foundation of the Reforms of Eastern Europe: Big Bang vs. Gradualism and the Limitations of the Neo-Classical Theory", *Economic Systems*, vol.18, 1994, pp.1-13; Rutherford, M., *Institutions in Economics; the Old and the New Institutionalism*, (Cambridge, Cambridge University Press, 1994)] or reduction of institutionalism to questions of rational choice methodological individualim [Lichtentein, P.M., "A New-Institutionalist Story About the Transformation of Former Socialist Economies: A Recounting and an Assessment", *Journal of Economic Issues*, vol.31, no.1, 1996]. The new institutional economics is an amalgamation of several theories like property rights theory of Coase, evolutionary theory from Alchian, Nelson and Winter, Transition cost theory of Williamson, of Willaim Son, contract organisaton theory of Alchian & Demsetz and economic theory of social institutions developed by North; ibid.

27 Fischer, Stanley and Alan Gelb, "The Process of Socialist Economic Transformation , *Journal of Economic Perspectives*, vol. 5, no. 4, 1991 p.101.

28 This argument is also in line with political economy argument. Implementation of reforms having good outcomes will build political support for reform continuation. However implementation of reform having higher likelihood of bad outcomes would bring antireform party to power and lead to reform reversal. (Gregord Roland, "The Political Economy of Transition", *Journal of Economic Perspectives*, vol 16, no.1, Winter 2002, p.34)

1. According to Gregard Roland,[29] Fingleton[30] has argued that establishment of institutions for competition policy should be implemented first in the transition process. Early privatization into an unregulated environment created a strong vested interest to block later attempts at regulations as happened in Russia.

2. Encouraging development of a small private sector prior to comprehensive reforms provides supply response in emerging markets as has been justified in Hungary, China and Vietnam. Best firms should be privatized first to create political support and goodwill for further privatization.[31]

3. Mass privatization instead of gradual sales creates strong concentration of economic power among insider managers who could abuse minority shareholders. This could lead to low confidence in stock market. It would be easier for them to capture politicians and regulators[32] leading to corruption and weak law enforcement (Campos, 1999)[33] and would oppose legal reform. This increased economic power could lead to inequality of wealth (Alexeev, 1999) [34] and is likely to increase political instability. In such circumstances, they would like to transfer corporate assets to their private use rather than in the long-term future of enterprises they control. Preparatory steps like clarification of owner ship

---

29 Roland, Gregard, "The Political Economy of Transition," *Journal of Economic Perspectives*, vol 16, no. 1, Winter 2002 p.42.

30 Fingleton, John et al. *Competition Policy and Transformation of Central Europe* (London, Centre for Economic Policy Research, 1996).

31 Gregard, Roland, n. 29, pp.42-43.

32 Insiders would threat politicians of reducing economic activity and destroying jobs or may use bribery to extract subsides or favourable legislation, ibid, p.44.

33 Campos, Nauro, "Never around Noon: On the Nature and Causes of Transition shadow". CERGE Discussion Paper 1999-19, Centre for Economic Research and Graduate Education – Economics Institute, Prague, 1999 cited in Gregord Roland, n. 29.

34 Alexeev, Michall., privatisation and the distribution of wealth in Russia." *Economics of Transition*? vol 7, no. 2, 1999pp 449-465. Cited in Gregard Roland, n.29.

rights, corporatization, moving responsibility to Board of Directors should be taken as rapidly as possible.[35]

4. Macro economic stabilization should be the initial priority for countries having internal or external imbalances. In high inflation countries it may be necessary in initial phase of stabilization to fix nominal exchange rate to provide a nominal anchor for the price level.[36]

5. Current account convertibility may be desirable while attracting foreign investment but reserves should be at a adequate level. Country having no reserves have to float their exchange rate and rely on monetary and fiscal policy to anchor nominal prices. Capital account convertibility can be introduced as a later stage when expectations of stability establishes and financial and regulatory systems have been developed.[37]

6. Banking system reforms like accounting and asset valuation standards, drafting of prudential regulations like bankruptcy laws as well as staff training can begin immediately. Audit of firms, banks, asset valuation can come next followed by portfolio restructuring an recapitalisation centres of financial expertise in banks can open up after which a complete market based banking system emerge and interest rate be liberalized,[38]

Big Bang Vs Gradualism

The last decade when transition from a centrally plained economy to a market economy was debated, differences of opinion started emerging

---

35 Gregard Roland, n.29, p.44,

36 Stanley Fischer and Alan Gelb, n.27, p.103.

37 Ibid p.104

38 Ibid

in a short span of time. The debate was about the strategy to be adopted during transition, either a quick approach called shock-therapy or a gradual approach. The difference between the two strategies and the intellectual underpinnings for strategies are discussed below.

Table 2: Shock Therapy Vs Gradualism

	Shock Therapy	Gradual Approach
1. Change	Quick elimination of state ownership	Emphasis on natural Selection. Free entry and exit of new firms
2. Privatization	Very quick e.g. voucher privatization	Commercialization and Corporatization may precede privatization, which is gradual e.g. Employee. Management buyout, ESOPs.
3. Target	Intended end point	Shaped by requirements of present needs
4. Institutional Knowledge	Institutions have no value in the end state. Hence rapid destruction	Old institutions are built on past knowledge, this should be processed during reform. Hence gradual replacement
5. Reversibility	Logic of end point target requires irreversibility	Policies are judged by performance Reversible
6. Liberalization	Requires this as a first step to market economics.	Slow liberalization accompanied by institutional building
7. Stabilization	Based on rigid monetarist policies. Quick disinflation	Exchange rate as an indicator for stabilization. No emphasis on quick disinflation.

Source: 1.Kornai, Janos, "Ten years After the Road to a Free Economy: The Authors Self-Evaluation", *Annual World Bank Conference on Development Economics 2000*, World Bank, 2001, pp.53-54.

2. Murrel, P, "Evolutionary and Radical Approaches to Economic Reform", *Economics of Planning*, 25, 1992, p.81.

3. Stiglitz, Joseph E., "Whither Reform? Ten Years of the Transition", *Annual World Bank Conference on Development Economics 1999*, World Bank, 2000, pp.46-47.

4.Emine Gurgen, Ram Van Rooden, "Economic Reforms in Kazakhstan; Kyrgyz Republic, Tajiksitan, Turkmenistan and Uzbekistan", *IMF Occasional Paper, 183*, (Washington D.C., IMF, 1999).

Intellectual Underpinnings of the Strategies

The transition debate uptill now has shown a contrasting picture where proposed transition policy was influenced by economists standing regarding the role of the state in general.[39] The shock-therapy approach is based on the fact that a market economy with perfect competition, where prices are adjusting mechanism maximizes welfare and achieves a general equilibrium and an efficient allocation of resources. Hence, according to this school Centrally planned economies which are inefficient should be reformed as fast as possible to maximize welfare because growth is all about increasing peoples welfare. According to Kornai[40] advocates of Shock-therapy were strongly influenced by Karl Marx and Ronald Coase. [41] Vulgar Marxism[42] believes that change in ownership is a sufficient condition for capitalism to follow i.e. capitalist relations will on their own form institutions, political organization and ideology required to operate capitalist base.

The gradual strategy has been influenced mainly by ideas of Hayek, Joseph Schumpeter and the Kenyesians. Hayek was of view that capitalism develops spontaneously and bring out institutions capable of survival by evolutionary means.[43] A society stock of personal knowledge is acquired through a long historical process and is shaped by institutions and organizations of that particular society. It is exactly when a new world is

---

39 Neo-classical economists focus relied on macro-economic stabilisation and a big-bang approach. Advocates of a Kenyesian approach and majority of economists in transition economies preferred gradualism

40 Kornai, Janos, "Ten Years After The Road to a Free Economy: The Author's Self-Evaluation", *Annual World Bank Conference on Development Economic 2000*, IBRD, 2001, p.54.

41 Coase was a view, that an efficient allocation would appear as long as exchange of free, involves no truncation costs and occurs in a perfectly competitive market, where there are no barriers to reconstruction Coase, Ronald, "The Problems of Social Cost", *Journal of Law and Economics*, vol.17, no.2, 1960, pp.357-76.

42 According to Kornai this is a term used by sophisticated Marxists to symbolize the accelerated privatisation strategy. See Kornai Janos, n. 40.

43 Hayek, Friedrich A, *The Constitution of Liberty*, (Chicago, Chicago University Press, 1960.)

sought that it is important to recognize the limits placed by the fact that current knowledge has been produced by old order.[44] An evolutionary view of economic process holds that relative successes of different societies in largely a function of their effectiveness is reacting to exogenous events and in generating productive social change.[45]

An essential part of transition to a more efficient economy is redeployment of resources from less productive to more productive uses or Schumpetrian[46] 'creative destruction'. Innovations and adaptability are crucial ingredients for success of economic systems. Change is accomplished by replacement of old and by experimentation with and selection among new structures. The problem of socialist economies was barriers to entry and exit. The challenge is to expose existing institutions by new private sector.

Case for Shock – therapy vs Gradualism

Charles Wyplosz[47] has done a nice summary of the analysis by scholars presenting arguments in favour of above two strategies. Economists who favour shock-therapy are of view that reforms are complementary,[48] needing one another e.g. stabilization and structural reforms need each other and even strengthen each other. Secondly delays may breed uncertainty and impede restructuring. Thirdly in early years of

---

44 Hence relative merit of radical and evolutionary schemes will hinge to a large extent on relative importance that one attributes to technical and personal knowledge, as radical reforms may destroy much of societies knowledge capital. See Murrel, P., "Evolutionary and Radical Approaches to Economic Reform", *Economics of Planning*, 25, 1992, pp.80-81.

45 Nelson R., "Capitalism as an Engine of Progress", *Research Policy*, 1990, pp.193-214.

46 Schumpeter, Joseph A., *The Theory of Economic Development. An Inquiry into Profits, Capital, Credit, Interest and Business Cycles*. (Cambridge, Mass: Harvard University Press, 1968).

47 Wyplosz, Charles, "Macroeconomic Lessons from Ten Years of Trnsition", *Annual World Bank Conference on Development Economics 1999*, 2000, p.324.

48 e.g. Price Liberalisation means hard budget constraints for firms, requiring property rights and t heir implementation. New Firms may need emergence of a financial system. Monetary policy should control inflation by controlling money supply and for this budget deficit should be controlled.

transition people are willing to accept temporary hardship in expectation of rewards to come. New interest group do not exist and may take time to oppose.[49]

Proponents of Gradualism are of view that at least institutional arrangements like establishment of a banking system, new tax system, emergence of new forms adoption of commercial laws and courts may take time, if not stabilization and liberalization. Secondly rapid charges may be costly[50] that may even threaten the transition process. In such cases there is an optimal speed of reforms. Thirdly moving gradually makes it possible to pareto-compensate each group of potential losers.

It has been ten years since the transition from centrally planned economics to market economies began. The experiment has not proceeded in the way many economists had predicted a decade ago. Contrast to the difficulties faced by the Russia during transition, another example is of China, which created it own transition according to its needs and initial conditions. The Washington consensus based on perfection of a market economy needs to pay attention to the new institutional economics and the evolutionary approach. When the same medicine does not work for a particular disease on a number of occasions, it would be advisable to either diagnose more appropriately or let the medicine change. For, all our efforts should aim at development of the society and its people, rather than the rigid ideological battles and a wish to win.

---

49 Balcerowicz, Leszek, "Common Fallacies in the Debate on the Transition to a Market Economy", *Economic Policy,* 19S, 1994, pp.18-50.

50 Rapid changes may result in increasing unemployment. Job searches can be long and costly. People may threaten reform process Best approach may be to restructure old firms as new firms emerge or set up a welfare system before unemployment increase. Dewatripont, Mathias, and Gregard Roland, "The Virtues of Gradualism and Legitimacy in the Transition to a Market Economy", *The Economic Journal,* 102, 1992, pp.291-300. Cited in Wyplosz, Charles, n.47.

Chapter III
Economic Transition in Central Asia

During the legacy of centrally planned economies all five Central Asian states that were land locked and isolated from world markets, depended heavily on the Soviet system of trade routes and energy pipelines for essential input supplies and exports, as well as catered to the needs of the Soviet Union. After the collapse of Soviet Union these countries were faced with a challenge of how to exploit their resources more effectively while simultaneously introducing the systemic changes needed to achieve market framework to integrate their economics with the rest of the world.

The pace and intensity of reforms have varied widely across the countries in the group. Differences in natural resource endowments, economic structures and socio-cultural factors undoubtedly influenced attitude towards reform. While Kazakhstan and Kyrgyzstan the two fastest reformers were at opposite end of the spectrum, Kazakhstan taking advantage of relative strengths and Kyrgzstan by striving to overcome initial limitations. Uzbekistan adopted a more state led approach and reforms came in reaction of events rather than in anticipation of them.

The initial years of transition were characterized by sharp output declines and erosion in living standards in all Central Asian States. Special circumstances such as civil war in Tajikistan and excessive reliance on trade routes e.g. energy pipelines in Kazakhstan and Turkmenistan constrained export markets and adversely affected growth. The negative impact on growth from structural dislocations was aggravated by high inflation resulting from price liberalisation and monetization of large fiscal deficits to sustain output and employment, notably, following the introduction of national currencies.

Trade liberalisation also contributed to growth in Central Asia, first by re-instating steady input supplies and overtime by improving efficiency of resource allocations, helping diversification and ensuring greater transparency in the trade system.

All countries suffered employment and real income losses during transition. The real wage erosions were partly compensated for by generous consumer subsidies and income from informal market activity. Growth in employment and real incomes required restructuring of state enterprises, phasing out of budgetary support and directed exits to enterprises. In Turkmenistan, Tajikistan and Uzbekistan where such restructuring was delayed, open unemployment rates remained correspondingly low notwithstanding persistent output contractions.

Due to loss of transfers from Soviet budget at start of transition phase, lack of domestic financing, and limited access to international capital markets, Central Asian states were left with no choice but to implement major structural reforms to support the fiscal reforms. Price liberalization and exchange rate devaluation tended to aggravate the fiscal deficits by raising expenditure more than revenue. These states after the introduction of their currencies, intensified efforts to stabilize their economies and sharply reduce inflation from peak rates of as high as four digit levels. All the five states adopted money-based stabilisation programs, with same exchange rate flexibility under managed floats. Considerable disinflation was achieved in all five countries, exchange rates were stabilized or even appreciated in real terms in some cases and parallel market premiums were reduced.

Fast reformers have progressed considerably beyond the first stage of small enterprise priviatization to mass privatization of medium and large scale enterprises. Progress have also been made in initiating privatization of agriculture through land-lease programs and legal and regulatory reforms have proceeded in piece-meal fashion, with only Kazakhstan and

Kyrgyz republic undertaking more in depth reforms of their civil codes. All the countries passed bankruptcy laws at the start of transition to liquidate loss making enterprise, although these laws were not rigorously implemented. Recently these countries have started reforming their financial systems as an integral part of stabilization and reform programmes.

Monetary Policy and Stabilization

After independence in 1991, the Central Asian States, operated essentially under the fiscal and monetary system inherited from Soviet era. After mid 1993, all states adopted their own national currencies with Kyrgyz Republic taking the lead in May 1993 and adopted a floating exchange rate. The programme of introduction of national currencies is given in the Table 1.

Table 3.1: Introduction of National Currencies

	Date	Name	Conversion Rate	Exchange System
Kazakhstan	Nov. 15, 1993	Tenge	T1 = Rub 500	Managed float through foreign exchange auctions
Kyrgyz Republic	May 10, 1993	Som	Som1 = Rub 200	Managed float through foreign exchange auctions
Tajikistan	May 10, 1995 April 1, 2001	Tajik ruble Somoni	TR1 = Rub 100 S1=TR1000	Managed float through foreign exchange auctions
Turkmenistan	Nov 1, 1993	Manat	M1 = Rub 500	Managed flaot through foreign exchange auctions
Uzbekistan	Nov 15, 1993 - - July, 1 1994	Sum-coupon	SC` = Rub 1	Initailly at par with ruble, than managed float through foreign exchange auctions
	July 1 1994	Sum	Sum1 =SC 1,000	Managed float

Source: Gurgen, Emine, et.al., "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan", *IMF Occasional Paper No.183*, 1999, p.24.

As traditional trade disrupted and prices increased due to liberalisation, current account deficits soared high. The worst macro-economic effect was high rates of inflation. The overriding policy concern in all CAS was to contain impact of adjustment on incomes. The newly established Central banks heavily financed state enterprises and emerging government deficits, which resulted in increase in broad money. Strong monetary growth, combined with price liberalization and move towards world prices in international trade led to rapid increase in inflation. In 1993 inflation was above 1600 per cent in Kazakhstan, 3100 per cent in Turkmenistan and 2194 per cent in Turkmenistan, while in Uzbekistan it was around 534 per cent (Table 2).

Table 3.2: Consumer prices in Central Asia, 1991-2000 (Annual Percent change)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	91	1515.7	1622.3	1879.9	196.3	39.1	17.4	7.3	8.4	13.4
Kyrgyz Republic	85	854.6	772.4	190.1	40.7	31.3	22.6	12.0	36.8	18.7
Tajiksitan	111.6	1156.7	2194.9	250.4	610.0	418.2	88.0	43.2	27.6	34.0
Turkmenistan	102.5	492.9	3102.4	1748.3	1005.2	992.4	83.7	16.8	23.5	8.0
Uzbekistan	109.7	626.9	534.2	1568.3	304.6	54.0	70.9	29.0	29.1	25.4

Sources: *World Economic Outlook*. Oct. 2001, Table 13.

Stabilisation Policies

The objective of governments during transition was to restore growth and to raise living standards of the people. The main target of macro-economic stabilization was disinflation by rigid monetarist polices. While Kazakhstan and Kyrgyzstan maintained stabilisation as an overriding policy objective, Turkmenistan and Uzbekistan stimulated employment and output growth by supporting state enterprise in ways that were inflationary and impeded growth.

During the first phase of reform, monetary targeting; supported by strengthened fiscal discipline and flexible exchange rates were used as the policy objective. During this phase interest rates moved toward positive real levels and directed credits were discontinued. During the second phase exchange rate served as an indicator for appropriateness of macroeconomic policies and were stabilized under a managed float by Central banks. Also greater emphasis was laid on structural reforms e.g. public enterprise restructuring and privatization, tax reform and financial sector reforms.[1]

The Russian financial crisis of 1998 lead to depreciation of the currencies o these countries. Risk premiums on interest rate increased and domestic and foreign financing fell sharply. While Kazakhstan, Kyrgyzstan, and Tajikistan intervened to prevent depreciation of their currencies, supported by tightening of fiscal and monetary policies including higher interest rates, Uzbekistan and Turkmenistan intensified exchange restrictions, rather than tightening monetary and fiscal polices.

Despite stabilization efforts, money demand in these countries has been low, showing low confidence in the currencies. After the introduction of currencies, there was sharp increase in velocity as public shifted goods into foreign exchange.[2] The ratio of currency in circulation and deposits denominated in domestic currency has also been high. Only in Uzbekistan this ratio was comparatively low but it was due to restriction on cash withdrawals.

---

1 Harry Snoek and Ron Van Rooden, "Monetary Policy and Progress with Stabilization", in Gurgen, Emine, Harry Snock, Jon Craig, Jimmy McHugh, Ivailo Izvorski and Rom Van Rooden, eds, "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan", *IMF Occasional Paper No. 183,* (Washington, IMF, 1999), p.25.

2 ibid., p.28.

Another risk to the stabilization efforts, came from increase in capital inflows as a result of more stable economic environment. This led to appreciation in the exchange rate, monetization of the economy and reverse currency substitution. The authorities sterilized the additional liquidity through sale of Central bank notes, like in Uzbekistan, exchange rate appreciation, or a combination of both as in Kazakhstan, keeping in mind the damaging effects of persistent exchange rate appreciation on export competitiveness.[3] The increase in money supply associated with capital inflows could be accommodated by increase in real demand for money as credibility of reform programme strengthens and there is sustained increase in economic activity.

Central Banks, Interest Rate Policies

All information regarding Central bank reforms and other monetary policy instruments is provided in the Table 3. The Central Asian states lifted interest rate controls on commercial banks during 1992-93 except Tajikistan. The Central bank refinance rates in these countries however, were not adequately adopted in line with inflation. Adjustments in deposit rate lagged behind rapid increase in inflation resulting in increasing negative real rates.[4] In Kazakhstan and Kyrgyz Republic interest rate became market determined by 1993-94 as developing financial banks took to Central bank financing. Real interest rate became positive in Kazakhstan and Kyrgyz republic by mid 1994 and in Uzbekistan by end 1994.

---

3 The real exchange rate of Kazakhstan rose by 20 per cent over three years from 1995 to 1999 against a combined index of Russian Rouble and US dollar see, "Staff Country Papers- Recent Economic Developments: Republic of Kazakhstan", *International Monetary Fund,* March 2000, no.00/29, Washington DC.

4 Harry Snoek, Ron Van Rooden, n.1, p.31.

Table 3.3: Central bank reform and Monetary Policy Instruments

	Central Bank independence	Refinance Rate	Credit to government	Reserve requirement	Treasury bills Auctions	Credits banks
Kazakhstan	By 1995	Set by NBK	At treasury bill rate	20 per cent (1995) 10 per cent (1998)	Auction started in Dec. 1994	Credit Auctions (1993) Open market of (1995)
Kyrgyzsatan	By 1998	At treasury bill rate	No credit to govt. by 1998	20 per cent	May 1993	Credit Auctions (1993) market based (1994
Tajikistan	1996	At credit auction rate	Zero interest rate	20%	July 1998	Credit Auctions
Turkenistan	By 1993 little autonomy	Set by CBT	Established by govt. (normally 0)	Different	1994	Directed Credits
Uzbekistan	1995	Set by CBU	At refinance rate	20%	March 1996	Interbank credit auctions

Source: *IMF Occasional Paper No. 183*, op.cit., p.32.

Table 3.4: Bankruptcy Laws

	Status	Insolvency	Reorganisation	Liquidator	Claims	Specialised const
Kazakhstan	Passed 1992 revised 1994, 97	Debtor unable to meet liabilities	Binding agreement between creditors and debtor	Court appointed	Cost of liquidation + Personal Injury claims + Social security wages	None
Kyrgyzstan	Passed 1993 Revised 1997	-do-	-do-	-do-	-do-	None
Tajikistan	Passed: 1992	-do-	-do-	Creditors and court appointed	Include all above claims but not very clear	Arbitration courts
Turkenistan	Passed 1993 Revised 1997	-do-	-do-	Court appointed	Include all three	None
Uzbekistan	Passed 1994	-do-	-do-	Creditors and court appointed	-do-	Economic and Arbitration courts

Source: *IMF Occasional paper No. 183*, op.cit, p.62.

Structural Reforms:

Macroeconomic stabilization has been a key element of economic reforms programs in transition countries, essential for resumption of economic growth. While it may be a necessary, condition, it is not a sufficient one. Another condition for sustained economic growth is structural reforms.[5] We will discuss four areas of structural reforms, e.g. price liberalisation, enterprise reforms, financial sector reforms and fiscal reforms.

(1) Price Liberalization

To move from a sellers market to buyers market price liberalization is important. Kazakhstan completed its price liberalization by 1994 except some monopoly products and utilities. The Kyrgyz Republic initially kept subsidies on a small set of foodstuffs and controlled prices of monopoly products. By 1997 price regulation on all monopolies was abolished. Uzbekistan liberalised most retail prices in 1992 but ration system through cards was maintained for key consumer items. By 1998, price controls existed for utilities and transportation and for a large number of monopoly products including food stuffs.[6] Turkmenistan effected liberalisation in 1995 and 1997 but a number of goods and services still remains under price controls; state orders were maintained for cotton and wheat.[7] In all countries prices for monopoly were regulated below recovery cost levels.

(2) Enterprise Reform:

This provides incentive for profit maximising behaviour of economic agents. It facilities a reallocation of resources from old to new activities, via closures and bankruptcies, creation of new ones, and restructuring of surviving firms.[8] There are four areas of enterprise reform.

---

5 Harvylyshyn, Oleh, Thomas Wolf, Julian Berengant, Morta de Castello Branco, Ron Van Rooden and Valerie Mercer - Blackman, "Growth Experience in Transition Countries: 1990-98", *IMF occasional Paper No. 184* (Washington, IMF , 2000).

6 Jon Craig, Ivailo Izvorski, Horry Snock and Ron Van Rooden, "Structural Reforms", in Gurgen, Emine, et.al. (eds.), n.1, p.57.

7 ibid.

8 For further issues in Enterprise Reform see, "The Reform Experience, Directions of Development", *Problems of Economic Transition*, vol.38, no.4 August 195, pp.15-16.

a) **Rehabilitation of State enterprises**

The first stage in restructuring involved corporatization, during which enterprises were turned into joint stock companies, with more clearly defined owners and balance sheets.[9] The second stage involved attempts to restructure state enterprises, for their future privatization or to make them more efficient.

In Kazakhstan enterprises were placed under management contracts. By 1997, 12 contracts out of 47, resulted in transfer of equity. But charges of corruption and asset stripping, shifted emphasis to state led restructuring under state property committee and the rehabilitation Bank set up under the world Bank. By mid 1998, 26 out of 46 enterprises had been liquidated or offered for sale. In Kyrgyzstan, Enterprise Reform and Resolution Agency, was created to deal with restructuring of large, loss –making enterprises. In Uzbebekistan 130 enterprises have been declared bankrupt, by courts and 70 have been restructured although there is no agency with responsibility for seeing restructuring process.[10]

b) **Privatization of State enterprises**

Economic reformers who believed that nothing could be expected from slow or evolutionary approach went for direct sales or voucher privatization. Vouchers holders could directly bid for enterprise shares or buy shares in investment funds. The funds were expected to manage a diversified portfolio of shares and to drive enterprise restructuring through active governance. The methods of privatization used commonly in Central Asian states and provided in the Table 3.5.

---

9 For more issues into coporalisation and commercialisation see Morris Bornstein, "Framework Issues in Privatisation Strategies of the Czech Republic, Hungary and Poland", *Post-Communist Economies*, vol.11, no.1 1999, p.8.

10 Jon Craig, Ivailo Izvorski, Horry Snock and Ron Van Rooden, "Structural Reforms", in Gurgen, Emine, et.al. (eds.), n.1, p.58.

Table 3.5: Methods of Privatisation of Medium Sized and Large Enterprises

Countries	Direct Sales	Vouchers	Management Employee buyout
Kazakhstan	Primary	Secondary	n.a.
Kyrgyzstan	n.a.	Primary	Secondary
Tajikistan	Primary	Secondary	n.a.
Turkmenistan	Secondary	n.a.	Primary
Uzbekistan	Secondary	n.a.	Primary

Source: *Transition The First Ten Years; Analysis and Lessons for Eastern Europe and the Former Soviet Union* (Washington D.C., World Bank, 2002), p.75.

By 1993, Kazakhstan, Krgyzstan entered the second stage of their privatization of medium sized enterprises. Kazakhstan has taken the lead in privatization of large scale enterprises which is proving to be difficult in other countries.

Since constitution of these countries do not permit private land ownership, agricultural reform has concentrated on transfer of land control from state farms to co-operative farms. In Kyrgyz republic long term leases with transfer and inheritance rights were granted on 99 year terms. In 1998, an amendment to constitution was made allowing private land ownership. In Kazakhstan 80 per cent of farm land has been privatized.[11]

[11] Ibid., p.59.

c) Financial Discipline

A key component of enterprise reform is the enforcement of financial discipline on state owned enterprises. Kazakhstan and Kyrgyzstan had eliminated subsdized bank credits by 1995. In 1993-94 Uzbekistan replaced outright directed credits with central bank loans to agricultural, mining and steel sectors but it was reversed in 1997. Enterprise arrears in these countries has also been monetized.

d) Legal and Institutional Reforms

Setting up a legal and institutional framework that guarantees and enforces property rights and safeguards private property is an important pre-condition for healthy private sector development. In initial stage all counties passed bankruptcy laws that were aimed mainly at liquidation of loss–making enterprises but contained insufficient provisions governing the restructuring process. As of end 1997, bankruptcy laws of Central Asian states contained several identical features (Table 4). Insolvency occurs when the debtor cannot meet its liabilities as they fall due including tax obligations. [12] All laws allow for restructuring if majority of creditors reach a binding agreement with debtor. The Antimonopoly Law 1994 of Kyrgyzstan and Antimonopoly law 1996 of Uzbekistan provides a level playing field for small and large enterprises and in particular laws safeguarding competition. [13] The Antimonopoly Committee is charged with monitoring the prices of all enterprises.

---

12 European Bank for Reconstruction and Development, *Transition Report, 1997*, (London, EBRD, 1997), p.176-213.

13 For more an Antimonopoly laws see, ibid.

(3) Financial Sector Reforms

This constitutes an important element of reform programs of transition economies. During the transition phase the role of banks needed to charge from mere administrators of transfers, to intermediaries between savers and investors and to the allocators of scarce resources to most efficient enterprises. Banks were the conduit through which monetary policy was conducted.

In first stage of reforms (1993-94) Kazakhstan and Kyrgyzstan to eliminate small banks who could not compete in an environment of higher interest rates and with lack of directed credits-by raising minimum capital requirements. Licensing requirements were tightened and prudential regulations strengthened. At same time, government's share in commercial bank was reduced. [14]

During second stage of reforms (1995-96) bank supervision was further strengthened. In 1994, banks were audited revealing non-performing debt equal to 55 per cent of total portfolios in Kazakhstan and 70-80 per cent in Kyrgyz Republic. Banks were restructured through mergers recapitalisation by government or private sector funds and transfer of a large portion of non-performing debt to special debt recovery tribunals. Banking supervision regulations were bought in line with international standards. In Kazakhstan share of non-performing loans declined but was still above 40 per cent in 1996. In Kyrgyz Republic all banks complied with the prudential guidelines and share of non-performing debt was reduced to 7 per cent.[15]

---

[14] For more on banking sector reforms in Kazakhstan see, Hoelscher, Davids, "Banking System Restructuring in Kazakhstan", *IMF Working Paper 98/96*, (Washington; IMF, 1998).

[15] Jan Craig, et.al., "Structural Reforms", in Gurgen, Emine, et.al., n.1, p.63.

Uzbekistan and Turkmenistan are dominated by traditional specialized banks. They have not been audited and are thought to be insolvent. The role of banking continues to be limited even in two reforming countries as a evident by high currency-deposit ratio. Strengthening public trust in banking system is likely to be a lengthy process.

By 1997, Kazakhstan, Kyrgyzstans and Uzbekistan adopted new chart of accounts which are mandatory for all financial institutions. Tajikistan adopted in January 1999. Turkmenistan introduced an updated version in March 1998. All Central Asian states first centralized inter enterprise payments in a clearing centre within the central bank (1991-92). In next phase countries started to automate the clearing process, with objective of eliminating large delays experience under postal and manual clearing systems, which was completed by mid 1997. [16]

(4) Fiscal Reforms

The legislative base for establishment of treasuries to manage and account for government financial flows which are essential prerequisites to sound budgeting, have lagged behind in Central Asian States e.g budget laws were not introduced in Kazakhstan and Kyrgyzstan until 1997. Turkmenistan passed a law on budgetary systems in 1996.

The reforms in formation of treasures and budget process for all five countries are given in the table below.

16 ibid., p.65.

Table 3.6: Fiscal Reform in Central Asian States

Country	Year of establishment of Treasury	Govt. Budget composition	Remarks
Kazakhstan	1994, accounting of all borrowing and debt service payments placed under treasury single accounts	Central and local govt. budget + extra budgetary operations and quasi fiscal activities of banking system	Treasury data systems provide estimates on central and local govt. Fiscal outputs, published monthly within 4 weeks.
Kyrgyzstan	1996, All bank accounts operated by ministries and budget institutions, extra-budgetary accounts consolidated into treasury single accounts	Central budget + local govt. budget + city of Bishkek budget +extra – budgetary fund	Data on quarterly basis with a lag of six weeks. No qualification of quasi –fiscal activities.
Tajikistan	In progress	Central budget + local govt. Budget + 2 extra – budgetary funds: social protection and road fund	No quantification of quasi-fiscal activities
Turkmenistan	1994, to handle central and local govt. budget payments. Improvement needed like centralized recording of payments.	Less than 50 per cent of formal govt. Activity pass through formal budget. Overlapping of public enterprise and general govt. budget.	Estimates also include transactions of 4 major extra budgetary funds for monitoring purpose only, with no treasury control over funds transactions.
Uzbekistan	1996, work on legislation of laws subsequently stopped	Central and local govt and six extra budgetary funds.	Data compiled each month with delay of 3 weeks. Quasi – Fiscal operations not quantified.

Source: Developed from *IMF Occasional Paper No. 183*, op.cit, pp.66-68.

Expenditure Prioritization and Reforms

Increased attention is being paid to improve funding mechanisms for health care and education. Khazakhstan, Krygzstan and Uzbekistan have established a medical insurance fund, which are used for medical treatment and healthcare. Reforms have started to streamline social safety net systems. In most of the countries subsidies on consumer items have been replaced by targeted cash payments. However substantial subsidies remains for transport, housing and utilities in some countries like Uzbekistan and Tajikistan.

Pension reform includes transformation of pay-as-you-go public pension into a defined contribution funded system of individual pension accumulation accounts, supported by minimum pension guarantee by the state. This has been implemented in Kazakhstan, Kyrgyzstan and Tajikistan. In Uzbekistan immediate focus has been mostly on stabilizing pension fund finances by collecting contribution arrears and reducing number of pensioner receiving a full pension.[17] Employment funds as a Kazakhstan are being set up to deal with unemployment problems. Public investment programs focussing on basic public infrastructure like bridges, roads, railroads, health, education have been set up with co-operation of world Bank in Kazakhstan and Kyrgyz Republic.

Tax Reforms

The tax GDP ratio during transition declined in these countries. It was due to shrinkage of traditional tax bases, problems of adapting tax structures to changing nature of activity and emerging private sector inefficiencies of tax administration and weak compliance.[18] New tax codes were introduced in all five states. Progress has taken in elimination of export and excess wage taxes. But more reforms are required for introduction of new accounting systems, and standards, elimination of exemptions, value – added tax and taxation of small business.

---

17 De Castello Branco, Morta, "Pension Reform in the Baltics Russia and Other Counties of Former Soviet Union", *IMF Working Paper 98/11*, (Washington; IMF, 1998)

18 Hemming, Chesty and Lahiri, 'The Revneue Decline' in Daniel A. Citrin and Ashok K. Lahiri, eds., "Policy Experiences and Issues in Russia, Baltics and Other countries of Former Soviet Union", *IMF Occasional Paper No.133,* (Washington, IMF, 1995).

Tax administration has to shift from taxation of highly controlled state sector to ensuring compliance of emerging private sector. Tax administration reforms have been slow. Reforms included tax administration legislation, management and organizational reforms, filing and payment procedures, computerization, collection and enforcement. Kazakhstan has adopted a legal framework with planning registration arrangements in place. [19]

External Sector Reform and Policies

Under the centralized planning regime, the Central Asian states developed a specialized production structure heavily oriented towards agriculture and mineral extraction. They depended on Soviet Union for imports of consumer goods, energy food, leading to high import depending making these countries vulnerable to adverse trade shocks.[20] After independence the Central Asian states incurred persistent current account deficits. The main factors for this were:

1) Agriculture industrial and household were highly energy intensive. [21]
2) Demand for investment goods to replace obsolete capital was high. [22]
3) After year of repressed consumption import demand for Western goods surged. [23]

Hence imports from non-traditional markets grew rapidly.

---

19 Ebrill, Liam and Oleh Havrylyshyn, "Tax Reform in the Baltics, Russia and Other countries of Former Soviet Union", *IMF Occasional Paper No.182* (Washington, IMF, 1999)

20 Jimmy Mc Hugh and Emine Gurgen, "External Sector Policies", in Gurgen, Emine, et.al. (eds.), n.1, p.35.

21 ibid.

22 ibid., p.36.

23 ibid.

Progress towards trade liberalization has varied across Central Asian states. While in Kazakhstan, Kyrgyz Republic and Tajikistan, restrictive trade monopolies on foreign trade have been eliminated, licensing requirements relaxed and tariff reforms initiated, in Uzbekistan and Turkmenistan progress has been gradual and state continues to play a significant role. However all states have benefited from movement toward world prices and trade exports have grown and region has diversified it's markets. Still a lot remain to be done.

Table 3.7 : Current Account Balances (Million US dollars)

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	-1900	-641	-905	-213	-751	-799	-1236	-233	1200
Kyrgyzstan	-61	-88	-84	-235	-425	-138	-371	-185	-100
Tajikistan	-53	-208	-170	-89	-70	-56	-120	17	100
Turkmenistan	926	776	84	23	0	-580	-934	-851	100
Uzbekistan	-236	-429	118	-21	-980	-584	-102	-176	50

Sources: *UN Economic Survey of Europe 2001*, No.1, Table 8.16, p.268.

Reform of Trade System

Kazakhstan and Kyrgyz Republic quickly abolished state monopoly privileges, unified exchange rates and simplified regulatory frameworks governing international trade. Kyrgyz Republic in 1994-95 and Kazakhstan in 1995-96 dismantled centralized system of trade arrangements, eliminated non-tariff trade restrictions, abolishing export surrenders and terminated requirements to register commodity exchange at export contracts. Tajikistan established an open and liberal trade regime in 1997-

98. Non-tariff restrictions on imports were eliminated and a low import tariff was introduced.[24]

In Uzbekistan and Turkmenistan reforms have been slower. State still exercise considerable influence over trade. Export surrender and taxes are maintained. In Uzbekistan cotton, grain and gold exports are channelled through the state sector. In Turkmenistan all foreign trade is channelled through state commodity exchange. Import substitution is practised in both countries. While Uzbekistan is aiming to become self-sufficient in energy and food, Turkmenistan is striving for self-sufficiency in wheat. Thus oil imports are discouraged, while exports of cereals, dairy products are forbidden.[25]

Price Liberalisation and Market Diversification

Autarchic dependence[26] among the Central Asian republics made them vulnerable under which even small shocks in intra-FSU trade would have ignited a overall crisis which actually happened in 1991 after breakdown of FSU.

As a result share of mutual trade of all NIS decreased abruptly. Price liberalisation helped countries like Uzbekistan to shift exports of cotton and gold to western markets. Improvement in trade with non-CIS countries could not offset the sharp drop in intra-FSU trade, which by 1993 fell to as little as one third of total.[27] This was mainly caused by output decline that reduced the demand for all imports. Due to extensive inter-linkages in

---

24 ibid, p.36.

25 ibid.

26 It means too much dependence internally with lack of external ties as was the case with Central Asian Republics. Being part of strongly integrated economy domestically within the FSU, and closed externally.

27 Islamov, Bakhtior, *The Central Asian States Ten years After: How to Overcome Traps of Development, Transformation and Globalisation*, (Tokyo, Maruzen Co. Ltd.,2001), p.168.

production, trade decline further led to output decline.[28] Other factors like lack of emergence of market based institutions after breakdown of administrative command system, non-payment problem; worsening of terms of trade except in Turkmenistan, lack of convertibility of new currencies, coupled with significant foreign exchange shortages led to depressed import demand for Central Asian products during a period of sharp output contraction in traditional trading partners.[29]

Uzbekistan made largest efforts in diversifying exports market. The share of CIS counties in exports decreased to 30.1 per cent in 1999 from 84.1 in 1991. Imports from CIS countries fell to 26.4 per cent in 1999 due to govt. policy of import substitution. In Kazakhstan share of exports to BRO countries fell to 26 per cent in 1999 from 90.7 in 1991 due to fact that access to trade finance opened up new export markets in European Union, share of imports increased to new markets to 57 per cent.

Tajikistan showed a steadier pattern with traditional partner accounting for over 40 per cent of exports 78 per cent of imports in 1999. Turkmenistan exports of cotton and oil shifted to new markets raising export share to almost 40 per cent in 1997 and import share to 45 per cent in same year.[30]

---

28 Tarr, David G. "The Terms of Trade Effects of Moving to World Prices on Countries of Former Soviet Union", *Journal of Comparative Economics*, vol.18, February 1994, p.3.

29 Bakhtior Islamov, n.27.

30 Data facts given from Table 8.

Table 8: Share of exports and Imports of CIS in Total Exports and Imports of CAS

States	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan	
Years	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
CIS										
1991	90.7	85.9	97.2	80.0.	76.7	81.8	94.7	78.7	84.1	82.3
1992	87.6	4.39	93.7	96.2	80.3	89.5	80.2	84.9	82.5	85.5
1993	83.6	261.1	65.5	91.3	52.6	61.9	70.1	78.3	73.7	81.3
1994	58.0	69.0	87.9	66.1	18.8	42.6	77.0	46.7	62.1	53.8
1995	52.9	69.6	65.8	67.7	33.6	59.0	49.4	54.6	39.3	40.7
1996	55.7	53.9	77.8	58.1	43.0	57.3	67.5	29.6	221.1	32.2
1997	46.0	54.0	52.8	61.4	36.6	64.3	60.4	55.0	33.0	27.0
1998	40.0	47.0	44.9	52.3	34.0	62.7	25.6	47.0	24.6	28.0
1999	26.0	43.0	40.0	43.0	46.0	78.0	-	-	30.1	26.4

Source: Bakhtior Islamov, 2001, p.173

Barter Trade and Currency Substitution

Barter trade started to resolve payments difficulties, through inter state bilateral trade agreements. It helped maintain trade volumes but goods trade have often been overvalued and of poor quality. It created a parallel market for goods. It impelled restructuring because largely inefficient industries resulted in barter trade. To overcome this, many countries have passed legislation's but it still continues to be an important component of regional trade.[31]

[31] Jimmy McHugh and Emine Gurgen, "External Sector Policies", in Gurgen Emine et.al, (eds.), n.1, p.43.

Hard currency holdings were used to hedge against inflationary and exchange rate depreciation losses. Distrust of banking systems due to restrictions on currency withdrawals, bank's crisis and foreign exchange controls also encouraged currency substitution. This was shown in high ratio of foreign currency deposits to total deposits.[32] But in a transitional economy it is important to consider stock of foreign cash in circulation because these played an enormous role in underground and informal transactions. In Uzbekistan the volume of curb market was about 28 percent of total amount foreign exchange transactions, while commercial bank's share comprised only 12 percent. [33]

Currency substitution led to macroeconomic difficulties, by weakening monetary control, large capital flight, reducing tax revenue, complicating policy formulation. Central Asian republics responded by legalising foreign currency deposits, and phasing out of multiple currency practices. Also sustained counter inflationary stabilisation programme can effectively eliminate incentives for holding foreign currency.

Countries, that adopted radical reforms like Kyrzgyzstan which introduced trade and foreign exchange liberalisation including full current and capital account convertibility experienced rapid increase of accumulated debt and problems on its serving, enormous losses in gross official reserves and a sharp increase in current account deficits. Countries that adopted gradual reforms, suffered in different ways and in more indirect forms, especially in increasing spread between official and parallel market exchange rates.[34]

---

32 Bakhtior Islamov, n.27, p.209.

33 World Bank "Uzbekistan: Social and Structural Policy Review", *Report No. 19626*, (Washington D.C. IBRD, 1999), p.18.

34 Bakhtior Islamov, n.27, p.210.

Multiple exchange Rates:

Following introduction of domestic currencies, the central Asian states maintained complex multiple exchange rate systems supported by legislation that required exporters to repatriate export earning and surrender a portion to either the government or Central Bank. The multiple exchange rates imposed an implicit tax on exports, while subsidising imports, which benefited from a more appreciated exchange rate. The central banks used to buy domestic currency at a more depreciated rate from the foreign exchange obtained from exporters.

It also contributed to foreign exchange shortage by encouraging undervaluation of exports and diverting proceeds away from official channels of conversion. This led to rationing of foreign exchange by central banks, which in turn fuelled parallel market activity.

Table 3.9: Exchange Rates Domestic currency per US dollar (end of period)

Countries	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	6	54	64	74	76	84	138	145
Kyrgyzstan	8.03	10.65	11.20	16.70	17.38	29.38	45.43	48.30
Tajikistan[c]	1247	3550	288	334	747	918	1436	2.2
Turkmenistan	1.98	75.00	200.00	4061.00	4165	5200	5200	5200
Uzbekistan	1	25	35.5	55.00	80.17	110.00	140.00	325
(Period average)								
Khazakhstan	2.5	36.54	60.95	67.30	75.44	78.30	119.52	142.13
Kyrgyzstan	6.13	10.84	1.82	12.81	17.36	20.84	39.1	47.70
Tajikistan[c]	-	-	135	298.3	564	773	1240.5	1.83
Turkmenistan	1.98	33.20	110.60	3869	41.56	48.08	5200	5200
Uzbekistan	1	9.80	29.77	40.08	66.31	94.56	124.72	236.92

Source: *Key Economic indicators: 2001,* Asian Development Bank.

c : From 1992 to 1994 currency was in Russian Rouble. From 1995 currency is in Tajik Ruble. The new international currency, the Somoni has been circulated since 30 October 2000 and fully replaced the Tajik Ruble on April 1, 2001 at exchange rate of TJS1 = TJR1000

The channelling of economic activity to informal sector added tax collection problems and left some transaction entirely outside the tax base. So multiple exchange rate arrangements lacked transparency, distorted resource allocation and eroded budgetary tax revenue.

Most states have moved towards more flexible, unified and market oriented exchange rate regimes. Kazakhstan, Kyrgyzstan have eliminated multiple currency practices by 1998. Tajjikistan unified it's exchange rate in 1996 and Turkmenistan in April 1998 although it continued to restrict access to foreign exchange and sustained surrender requirements. Tightening of exchange controls by end 1998 once again resulted in divergent exchange rates. Uzbekistan continues to maintain multiple exchange rates and surrender requirements. After the August 1998 regional financial crisis, the spread between official and parallel exchange rates increased up to 4.78 times by Jan 2000.[35] A number of measures to curb parallel market activities were taken in May and August 2000.

All countries experienced real exchange rate appreciations, following initial steep real deprecations. The appreciation indicates an equilibrium adjustment to process of transition, without having a negative impact on external competitiveness. It also occurs as reforms increase resident's confidence in domestic currency.[36] But after Russian financial crisis of 1998 resulting in deprecation of Russian rouble, these states lost

35 Bakhtior Islamov, n.27, p.213.

36 Halpern Lazlo and Charles Wyplosz, "Equilibrium Exchange Rates in Transition Economies", *IMF Working Paper 96/125* (Washington, IMF, 1996).

price competitiveness of their consumer goods resulting in large current account deficit in most countries.

A real appreciation of national currencies could affect competitiveness of Central Asian exports mainly in CIS markets. But it will not apparently become a major impediment in trade with OECD. Countries very soon.[37] Hence devaluation by Kazakhstan and Kyrgyzstan after August 1998 was accompanied not by increase in exports but by a greater decrease of imports improving current account balances.[38]

Capital Inflows, FDI and International Reserves

Capital inflows increased as countries achieved macroeconomic stabilisation. However governments were forced in to assume external debt service as state enterprises who borrowed heavily were not able to pay. Later easing of capital controls and reform of FDI laws increased capital inflows. The Kyrgyz Republic maintained the most liberal capital account regime while Uzbekistan and Turkmensitan have most restrictive capital account regimes.

The Central Asian states encouraged FDI primarily by conducting reforms of their foreign investment laws, and domestic company laws to form joint ventures with foreign investors. Since 1992, Kazakhstan accounted for about 76 per cent of total direct investment in the region.[39] In 2000 Kazakhstan received about 1.2bn US dollar equal to 6.8 per cent of its GDP. In Kyrgyz Republic investment has mainly concentrated on Kumtoor gold mine. In Tajikistan FDI has been low due to unstable

---

37 This is due to the fact that sharp devaluation of Russian currency they have lost price competitiveness in Russian and US markets. However low wages in US dollar terms may not apparently effect trade with OECD countries even after appreciation of currencies.

38 Bakhtior Islamov, n.27, p.202.

39 Jimmy Mc Hugh, "Capital Flows and External Debt:", in Gurgen Emine, et.al (eds.) n.1., p.54.

economic environment and in 2000 it received 22mn US dollars equivalent to 2.2 percent of its GDP. (Table 3.11)

Table 3.10:Gross Official Reserves (in Million US Dollars)

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	83	711	1216	1660	2244.0	2221.0	1965	2002.0	2096
Kyrgyzstan	24	63	98	124.2	123	194	188	254	262
Tajikistan	0	2	1	4.1	14	30.0	65.0	58	87
Turkmenistan	0	818	927	1170	1172	1285	1379	1513	-
Uzbekistan	530	1021	1330	1867	1901	1167	1168	1242	1100

In Months of Imports

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	0.2	1.65	3.4	3.7	4.06	3.71	3.5	4.25	3.67
Kyrgyzstan	08	1.5	2.6	2.8	1.88	3.6	2.9	5.5	6.26
Tajikistan	0.0	0.0	0.0	0.1	0.2	0.6	1.3	1.0	1.24
Turkmenistan	0.0	6.5	6.6	8.5	9.2	15.3	14.6	-	-
Uzbekistan	3.8	3.8	5.9	6.9	5.4	3.7	5.0	5.7	5.4

Source: Calculated from *Key Economic Indicators* 2001, Asian Development Bank.

Table 3.11: Foreign Direct Investment (US Million Dollars)

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	100	473	635	964	1.137	1.320	1.143	1468	1244
Kyrgyzstan	0	10	45	96	46	83	86	38	-6.9
Tajikistan	0	9	12	20	25	30	24	4	22
Turkmenistan	11	79	103	233	129	108	62*	-	-
Uzbekistan	9	48	73	100	84	167	226	1242	1100

(In % of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	3.5	10.1	6.0	5.8	5.5	5.9	5.1	8.7	6.8
Kyrgyzstan	0.0	0.8	4.1	6.4	2.5	4.7	5.2	3.0	-0.5
Tajikistan	0.0	1.3	1.4	3.3	2.4	2.8	1.8	1.9	2.2
Turkmenistan	0.6	1.6	6.4	8.8	6.1	4.7	2.4*	-	-
Uzbekistan	0.3	0.9	1.1	1.0	0.6	1.2	1.5	-	-

Source: *IMF Occasional Paper No. 184,* 2000, p.55.
N.B. Figures for 1998, 1999, 2000 are calculated by from *Key Economic Indicators – 2001,* Asian Development Bank.
* denotes provisional figures.

International Reserves have been increasing from zero level in 1992. (Table 3.10), The level remains low in Tajikistan equal to 87 mm dollars. Kazakhstan has 2.1 bn dollars and Uzbekistan 1.1. bn dollars in 2000. However all countries are vulnerable to external shocks since in terms of financing months of imports figures for all five countries are low.. While Kazakhstan reserves were equivalent to 3.6 months of imports, only for

Turkmensistan they were equal to 14.6 months of imports in 1998 and is due to its exports of gas and oil. Much needs to be done in regard to management of foreign exchange and improving risk management.

External Debt

External Debt in all countries was very high in 1999 as shown in the Table 12. Only in Uzbekistan it was low to 26.9 per cent of GDP. Kyrgyzstan had external debt equivalent to 135 per cent of GDP. While in Tajikistan it was 81.9 per cent in some year. All these countries have been trying to cover their sizeable current account deficit via large resource transfers in their capital account. In 1997-98 all the countries faced a worsening in both capital and current accounts. Global recession, regional financial crisis, substantial deterioration of terms of trade, rising protectionism in industrial countries and falling competitiveness in traditional markets contributed to chronic and large current accounts deficit. Sharp in lending by international banks, higher interest rates and volatile movements of short term speculative capital in second half of 1990's as well as capital flight redoubled the payments imbalances and led to a rapid increase of their external debts.[40]

[40] Islamov, Bakhtior, *The Central Asian States Ten Years After: How to Overcome Traps of Development, Transformation and Globalisation*?" (Tokyo, Maruzen Co. Ltd., 2001), p.203.

Table 3.12: Total External Debt (Billion US Dollars)

Countries	1993	1994	1995	1996	1997	1998	1999
Kazakhstan	1.8	2.8	3.4	3.9	4.0	6.0	5.7
Kyrgyzstan	0.3	0.4	0.7	1.1	1.3	1.5	1.6
Tajikistan	0.5	0.8	0.8	0.9	0.9	1.0	.8
Turkmenistan	0.2	0.4	0.6	0.7	1.7	2.2	2.0
Uzbekistan	1.0	1.1	1.8	2.3	2.7	3.2	4.5

(In per cent of GDP)

Countries	1993	1994	1995	1996	1997	1998	1999
Kazakhstan	11.7	26.3	20.7	18.7	20.4	27.5	34.1
Kyrgyzstan	29.7	37.0	48.8	60.5	76.6	93.74	135.94
Tajikistan	75.3	91.7	133.6	83.9	95,6	80,7	81,9
Turkmenistan	4.4	9.0	29.7	31.7	68.0	77.94	52.23
Uzbekistan	18.9	19.5	17.8	17.1	18.0	21.7	26.9

Source: *IMF Occasional Paper No. 175,* 1998, Appendix Table 11, p.25.

N.B. Figures for 98,99,200 have been calculated from key Indications –2001 Asian Development Bank.

Large increase of external debt in Kyrgyzstan in 1999, has been due to over reliance on foreign financing of the budget, complemented by devaluation of the national currency. Only Turkmenistan has better prospects for sustaining its external debts. It has been increasing it's international reserves by inflows of surrender requirements on gas exports restructured gas debts and interest payments on reserves.[41]

In Uzbekistan the mixture of external trade and financial shocks affected the balance of payments and with the government's vast industrial policy, it was forced to expand foreign borrowing recently, which led to worsening of aggregate debt indices. The external debt GDP ratio rose from 18 per cent in 1997 to 26.9 per cent in 1999 (Table 12). The practise to rely more on foreign debt rather than foreign direct investment to finance current account deficit and industrial policy could further increase build up of external debt to a still higher level.

Growth Performance, Output Collapse and Employment

After independence all Central Asian states were characterised by sharp deterioration in growth performance. All states except Turkmenistan faced more or less six years of output decline. While the year of positive growth was 1996 in Kazakhstan, Kyrgyzstan and Uzbekistan it was 1998 in Turkmenistan though in between for one two years growth indices improved but were marginal. The cumulative output decline until growth recovered was highest in Tajikistan equal to 70.2 percent and lowest in Uzbekistan equal to 19.5 percent. Kazakhstan had a decline of about 40 percent. While the growth rate in 2000 was highest for Turkmenistan equal to 17.6 percent and 9.4 per cent of Kazakhstan it was more or less maintained at 4per cent in Uzbekistan for last 3 years.

In terms of industrial and agricultural output only Uzbekistan exceeded its industrial output of 1989 in 2000 by 27per cent while in agriculture it was 46.3 percent of it 1989 level. Kazakhstan performed badly as it was not able to recover the decline in both sector; in 2000 the

41 Ibid., p.204,205.

industrial output was 57.1 per cent while agricultural output was 60 percent of its 1989 level. Kyrgyzstan performed well in agriculture, was able to restrict decline to minimal level and it 2000 the output was 107.7 percent of it 1989-91 level. Tajikistan performed badly due to civil war and Turkmenistan performed well in agriculture as compared to industry due to cotton exports.

Table 3.13: Read GDP (Indices, 1989 =100)

Countries	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	100	99	88.2	83.5	75.8	66.2	60.8	61.1	62.1	61.0	62.6	68.6
Kyrgyzstan	100	104.8	96.5	83.2	70.3	56.2	53.1	56.9	62.5	63.9	66.2	69.5
Tajikistan	100	100.2	91.7	62.1	52.0	40.9	35.8	29.8	30.3	32.0	33.1	35.9
Turkmenistan	100	101.8	97.0	82.5	83.7	69.2	64.2	68.5	60.7	63.8	74.0	87.0
Uzbekistan	100	99.2	98.7	87.7	85.7	81.2	80.5	81.9	86.8	89.9	93.9	97.6

Source: *UN Economic Survey of Europe, 2001*, no.1, Apendix Table B. 1, pp.254.

Table 3.14: Comparative Performance

Countries	Years of output decline	Cumulative output decline in per cent	Real GDP 2000 (1989 = 100)	Year of Positive growth
Kazakhstan	6	39.2	68.6	1996
Kyrgyzstan	5	46.9	69.5	1996
Tajikistan	6	70.2	35.9	1997
Turkmenistan	8	39.3	87.0	1998
Uzbekistan	6	19,5	97.6	1996

N.B. Calculated from above table.

Table 3.15: Real GDP Growth Rate

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	-11.0	-5.3	-9.2	-12.6	-8.2	0.5	1.7	-1.9	2.8	9.4
Kyrgyzstan	-7.8	-13.9	-15.5	-19.8	-5.8	7.1	10.0	2.1	3.7	5.0
Tajikistan	-7.1	-28.9	-11.1	-21.4	-12.5	-4.4	1.7	5.3	3.7	8.3
Turkmenistan	-4.7	-5.3	-10.0	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6
Uzbekistan	0.5	-11.1	-2.3	-4.2	-0.9	1.6	2.5	4.3	4.3	4.0

Source: *World Economic Outlook,* Oct. 2001, Table 7.

Table 3.16: Real gross industrial output (Indices 1989=100)

Countires	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	99.2	98.3	84.7	72.2	51.9	47.7	47.8	49.7	48.5	49.8	57.1
Kyrgyzstan	99.4	99.1	73.5	56.3	35.5	26.7	27.8	38.8	40.9	39.1	41.4
Tajikistan	101.2	97.6	73.9	68.1	50.8	43.9	33.4	32.7	35.4	37.4	41.2
Turkmenistan	103.2	108.2	92	95.7	72.1	67.5	79.5	53.8	54.0	62.0	79.8
Uzbekistan	101.8	103.3	96.4	99.9	101.5	101.6	104.2	108.5	112.4	119.2	126.9

Source: *Economic Survey of Europe, 2001*, no.1, Appendix Table 6.5, pp.256.

Table 3.17: Agriculture Output (Indices 1989-91=100)

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	108.7	96.4	80.7	63.5	61.2	60.4	49.5	67.4	59.9
Kyrgyzstan	100.6	97	88	81.2	89.8	97.9	100.8	106.3	107.7
Tajikistan	75.8	71.5	69.3	60.4	51.8	50.2	48.4	47.4	54.3
Turkmenistan	88.9	99.4	105.8	103.9	68.1	78.2	85.1	99.4	94.2
Uzbekistan	97.9	100.2	100.2	101.2	91.7	95.2	98.6	97.8	96.3

Source: *Key Economic Indicator 2001*: Asian Development Bank.

The reasons for output collapse has been nicely summarised by Bakhtior Islamov,[42] which are represented below:

1. Central Asian States had very high indices of intra-regional trade to total trade and very less trade with other countries.[43] The disintegration of FSU was significant factor of output decline. Sharp contractions in output led to precipitous drops of foreign trade, in turn significant declines in trade contributed to further disruption of production and falling incomes.

2. Price and foreign trade liberalisation contributed to production decline due to disorganisation effect and contraction of demand for domestic goods.

3. Macro-economic stabilisation and disinflation by rigid monetarist policies reduced monetisation in the economy, financial depth and affected resource allocation functions of the banks.[44]

4. Hasty mass privatisation did not increase efficiency of production. New owners were more concerned to cash on the property grabbed and launder liquid assets in offshore banks. For privatisation to succeed it should be followed by expansion of capital markets and financial institutions to channel scarce resources to efficient sectors.

---

42 Bakhtior Islamov, "Systemic Transformation and output Decline", *The Central Asian States Ten Years: How to Overcome Traps of Development, Transformation and Globalization?* (Tokyo Maruzen Co. Ltd., 2001).

43 Islamov sows that the ratio of Intra-regional trade to total trade for all Central Asian States was more than 80%. While intra-regional trade to GNP ratio was on average more than 25% it was less than 5 % in case of trade with other states, ibid, p.56.

44 While Wyplosz, Wang, Cottarelli and Doyle do not believe in any trade-off between inflation and output due to rapid disinflation since they are of view that there was no banking system channelling financial assets from lenders to borrowers and hence there was no standard channel for contractionary effect of monetary policy. But Islamov argues that banking system existed and channelled saving to enterprises, played role of clearing houses for transactions, lowering costs of exchange. Hence there is high probability of contractionary effect of disinflation on output. Ibid, p.62,63.

5. High inflation effected purchasing power of population and decreased demand which reduced investment. Also inflation may have caused financial disintermediation affecting investment.[45] It may have also brought quick depreciation of obsolete capital equipment even faster. Increasing uncertainty and structural changes may have induced many enterprises to cut capital spending.

Table 3.18: Total Employment Indices (1989=100)

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	101.3	100.1	98.3	89.9	85.4	85.0	84.6	84.0	79.5	79.2	79.9
Kyrgyzstan	100.5	99.6	105.6	96.6	94.6	94.4	95.0	97.1	98.0	101.5	101.6
Tajikistan	103.2	104.9	101.6	98.7	98.7	98.6	92.1	95.3	95.6	91.9	85.9
Turkmenistan	103.4	107	110.5	114	118.5	122.5	124.7	127.2	128.8	129.7	-
Uzbekistan	104.2	109.2	108.7	108.5	109.9	110.8	112.3	113.8	115.4	116.5	117.8

Source: *Economic Survey of Europe, 2001*, no.1, Appendix Table B, 5, pp.257.

Table 3.19: Employment in Industry Indices (1989 =100)

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	98.5	99.9	96.2	83.6	76.9	69.6	66.9	59.0	57.8	57.9	-
Kyrgyzstan	99.9	92.7	89.5	80.5	72.0	61.2	54.6	51.2	50.1	47.4	46.4
Tajikistan	102.5	100.8	98.2	86.1	81.9	71.9	71.1	62.5	60.1	51.4	47.2
Turkmenistan	104.2	100.8	101.0	110.7	110.5	115.4	119.9	132.9	150.2	152.9	-
Uzbekistan	101.5	102.5	101.5	103.2	90.1	92.3	93.5	93.7	94.1	94.9	-

Source: *Economic Survey of Europe 2001*, No.1, Table 3.6, pp.258.

45 He shows in a comparative study of Baltics, Central Europe and CIS that output decline was less where investment fell less, initial level of inflation was lower and disinflation procedures milder because it was treated with less rigid suppression of money supply. Ibid., p.72.

Table 3.20: Registered Unemployment (percent of labour force, end of period)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Kazakhstan	0.4	0.6	1.0	2.1	4.1	3.9	3.7	3.9	3.7
Kyrgyzstan	0.1	0.2	0.8	3.0	4.5	3.1	3.1	3.0	3.1
Tajikistan	0.4	1.1	1.8	1.8	2.4	2.8	2.9	3.1	3.0
Turkmenistan	-	-	-	-	-	-	-	-	-
Uzbekistan	0.1	0.2	0.3	0.3	0.3	0.3	0.4	0.5	0.6

Source: *Economic Survey of Europe, 2001,* no.1, Appendix Table B.7, pp.259.

Officially growth in recorded unemployment has not matched with the transitional recession in these countries. This may be because labour hoarding was severe in agriculture is state owned enterprises also refrained from labour layoffs in times of output contraction. Also in some countries, unemployed persons receiving benefits for more than six months are excluded from statistics as in Kazakhstan.[46]

However, Ubzekistan state led approach was successful in increasing employment indices to 117.8 per cent in 2000 from 100 in 1989 while it was about 80 percent for Kazakhstan and 101 percent in Kyrgyzstan in 2000. Industrial employment was highest in Turkmenistan in 1999 equal to 153 percent of its 1989 level and was lowest for Kyrgystan as shown in Table 19. Registered unemployment was lowest in Uzbekistan equal to 6 per cent and highest in Kazakhstan equal to 46.6 per cent. Fast reformers like Kazakhstan and Kyrgyzstan performed badly in terms of employment as compared to Uzbekistan.

[46] Ivailo Izvorski and Emine Gurgen, "Growth Employment and Real Incomes", in Gurgen Emine, et.al. (eds.), n.1, p.13.

The five Central Asian States have attained considerable progress during three ten years of transition to a market economy. However, these ten years were not easy for them and they faced huge transformational traps, unemployment, inflation, income losses, rapidly increasing poverty. Several important lessons can be drawn from diverse experiences of five countries in meeting the challenges posed by transition.

In effort to stabilized their economies Central Asian states tightened monetary policy, and reduced inflation levels below 50 percent. Interest rate controls on Central Banks have been lifted and have become market determined. The burden of fiscal adjustment however, has been borne by expenditure cuts and insufficient attention has been paid to level and quality of government expenditure on social services, health, education and infrastructure maintenance. Tax administration laws have been ill-equipped to enforce tax collections. Prevalence of arrears and underground economies largely escape taxation.

All countries have implemented structural reforms, but it has varied considerably across countries. Slow reformers like Uzbekistan, and Turkmenistan need to catch up in areas such as privatisation and enterprise restructuring. Fast reformers should move to reforming labour market, trade and regulatory systems and agrarian reforms. Banking Systems are still at a elementary stage of development with considerable scope for institutional strengthening and improvements in banking practices. Banks continue to act as agent of state rather than independent financial intermediaries. Action is needed to promote an efficient banking system through legal and accounting frameworks, adopting effective prudential regulations and bank supervision.

External borrowing by the Central Asian States has grown rapidly due to financing of budget deficits and import bills. The borrowing strategy concentrated on short-term considerations with insufficient attention to medium-term debt sustainability issues. Also, institutions for monitoring of external debt were weak. Growing external-debt could trigger debt servicing difficulties. Hence, these countries need to change their strategies and strengthen institutional arrangement for external debt management.

All countries faced output and employment declines during these years of transition because of disintegration of FSU, fast liberalization of prices and privatisation of enterprises. Countries that adopted slow reforms like Uzbekistan faced very less severe disruptions. Hence, an adequate strategy calls for balancing the trade-off between reform process and the decline in the real variables like employment and income.

Chapter IV

Comparative Analysis: Kazakhstan Vs Uzbekistan

The choice of Uzbekistan and Kazakhstan for comparing transition policies is due to the fact that they represent a major part of Central Asia and are at extreme end of policy and philosophy adopted for transition. The pace and intensity of reforms have varied between the two countries. Kazakhstan has adopted a "Big-Bang" approach to transition while Uzbekistan has adopted more conservative approach and thinks it will be able to devise a 'Uzbek model of development' on lines of China's reform strategy. Uzbekistan pre-independence specialisation in cotton and gold and it's self-sufficiency in energy, may have contributed to its reliance on a more gradual and state-led approach to economic - transformation. Kazakhstan dominates Uzbekistan in pace and extent of its policy reform, particularly in areas such as trade liberalisation and interest rate liberalization. Uzbekistan paid large emphasis on social and physical investment and managed to avoid any payment arrears. The market friendly policies of Kazakhstan helped in large inflows of FDI.

Though Kazakhstan during first four years faced much more unemployment and falling income levels as a result of quick stabilisation policies, it helped in augmenting savings and attracting FDI, brought in much needed technical expertise. Considerable progress has been achieved in Kazakhstan in initiating restructuring programmes and in building institutional frameworks like financial institutions, stock-markets. It had taken in depth reform of its civil code. Still the growth performance of Kazakhstan was no better than Uzbekistan during 1990-99. Only in 2000, Kazakhstan has achieved over 12 per cent of growth rate.

Origin of GDP and Employment

Table 4.1: Sectoral shares of GDP and Employment 1998

	Kazakhstan		Uzbekistan	
	GDP	Employment	GDP	Employment
Agriculture	10	22	29	42
Industry	30	18	28	21
Services	60	60	43	37

Source: *The Europa World Year Book 2001.* See Economic Affairs Section on Uzbekistan and Kazakhstan. p.2286,4280, 4281.

In 1990 the sectoral composition of GDP was more or less same in both the countries (Table 4.8). Services sector share has increased considerably in Kazakhstan. Agriculture share decreased considerably in Kazakhstan to 10 per cent of GDP in 1998 from 29 per cent in 1990 while it was maintained at 29 per cent in Uzbekistan in 1998 from 31 per cent in 1990. Share of industry also declined in both countries but marginally.

Agriculture bears maximum burden of employment in both countries when compared with its share in GDP. However, Kazakhstan's agriculture is more over burdened than Uzbekistan. Comparatively Kazakhstan seems to be modernizing fast, as services sector share has increased considerably. But whether this pattern is sustainable, is a question because in case of financial crisis or depression in world economy services sector is most affected, particularly when the primary sector share is one-tenth in total GDP.

Economic Growth Performance

Uzbekistan managed to cushion all kinds of shocks after its independence better than any other country in the region. There was no chance to avoid GDP decline in these countries as a result of collapse of former Soviet Republic (1991) unified currency zone (1994), rapid liberalisation and difficulties of conducting independent macroeconomic stabilisation policies. However Uzbekistan experienced relatively low output decline compared to other countries in the region as President Karimov adopted a state-led approach.

Kazakhstan adopted a more or less Big-bang approach to reforms. It experienced high real negative GDP growth rates upto 1995. During 1994 and 1995 the growth rates were -12.6 per cent and -8.2 per cent simultaneously, while Uzbekistan experienced mild recession as GDP growth rates during the same years were -4.2 per cent and -0.9 per cent.[1] Though the year of positive growth in both countries was 1996, the cumulative output decline upto 1995 i.e. upto the years of negative growth, was 39.2 per cent for Kazakhstan while it was 19.5 for Uzbekistan. Uzbekistan was able to restrict the output decline per cent to half the ratio what Kazakhstan experienced.[2] (Table 3.15).

From 1996 onwards both countries witnessed, positive growth the growth rates were .5,1.7 in Kazakhstan during 1996 and 1997, while during same years the growth rates in Uzbekistan was 1.6 per cent and 2.5 per cent simultaneously. Again in 1998 Kazakhstan observed negative growth rate due to the Russian financial crisis that erupted in mid -August 1998. During 1999 the economy showed signs of recovery and GDP grew by 2.8

---

1 Refer Table 3.15, Chapter III, p.31.

2 Refer Table 3.14, Chapter III, p.30.

per cent due to bumper harvest and rising world prices for oil, gas and metals.[3] However, Uzbekistan avoided the negative impact of the crisis and more or less maintained real growth rate at 4 per cent. In 2000, Kazakhstan outpassed Uzbekistan as it registered a growth rate of 9.4 per cent as compared to 4 per cent in Uzbekistan, due to a rebound in industrial production.[4]

During 2000, the real GDP index was 68.6 of its 1989 level for Kazakhstan while it was 97.6 per cent for Uzbekistan.[5] Similarly the industrial output index for Kazakhstan was 57.1 in 2000 compared to its 1989 level while it was 126.9 for Uzbekistan in the same year.[6] Similarly the agriculture output index for Uzbekistan was 96.3 for 2000 compared to the 1989-91 average production while it was about 60 for Kazakhstan in same year and same period of comparison.[7] Index for retail trade and capital investment were 113 and 77 for Uzbekistan as compared to it's 1991 level, while it was 18 and 17.5 for Kazakhstan as compared to it's 1991 level.[8] Hence in almost all sectors of GDP Uzbekistan outperformed Kazakhstan and was able to prevent output decline much better than Kazakhstan.

Sharp contraction of industrial output occurred in Kazakhstan. This has not been accompanied by increasing share of trade and services. Large capital intensive heavy industries suffered from lack of investment, FSU

---

3 Asian Development Bank, "The Social Challenge in Asia", *Asian Development Outlook 2000*, p.71.

4 The Industrial output increased from 49.8 in 1999 to 57.1 in 2000. See, Table 16, Chapter II, p.31.

5 Refer Table 3.14, Chapter III, p.30.

6 Refer Table 3.16 Chapter III, p.31.

7 Refer Table 3.17, Chapter III, p.32.

8 Islamov, Bakhtior, *The Central Asian States Ten Years After: How to Overcome Traps of Development, Transformation and Globalsiation?* (Tokyo, Maruzen, Co. Ltd., 2001), p.132, Table 4.2.

disintegration and transition.[9] Industrial output decline was sharper and longer compared to fall in GDP in all countries in transition except in Uzbekistan. Uzbekistan had decline in industrial output in 1992 and was only country to start recovery in 1993 and exceeded its 1991 level in 1996. In contrast, Kazakhstan had decline in industrial output for six years and in 2000 the industrial output was 57.1 per cents of the level in 1991 as compared to 126.9 per cent for Uzbekistan.[10]

The important factor behind the better results in Uzbekistan was strategy of shifting towards a more industrialized economy keeping the traditional sectors to a reasonable extent and building new industries. The structure of output shares by industry in Uzbekistan has been changing in favour of heavy industries e.g. fuel, energy, machine, building and metal production avoiding drawbacks and dependencies of over-specialisation within the FSU, emerging like an independent economy. Another factor was growth in production of durable consumer goods like cars and television sets, which had not been produced in Uzbekistan before independence at all.[11]

Secondly a favourable resource endowment of cotton and gold reduced the urgency for reform. (Taube and Zettelmeyer).[12] And gradual reforms permitted a less disruptive transfer of resources from the obsolete public sector to emerging private sector and this may have conferred net benefits compared with rapid reform (Blanchard).[13]

---

9 Ibid.

10 Table 3.16, Chapter III, p.31.

11 Islamov Bakhtior, n.8, p.35.

12 Taube, G. and Zetlelmeyer, J., "Output Decline and Recovery in Uzbekistan: Past Performance and Future Prospects", *IMF Working Paper 98/132*, (Washington D.C., IMF, 1998).

13 Blanchard, O., *The Economics of Post-Communist Transition*, (London, Clanderon Press, Oxford 1997), Cited in R.M. Auty, "The IMF Model and Resources Abundant Transition Economies", *UNU/WIDER Working Paper No.169*, (Helsinki , UNU/WIDER, 1999), p.16.

Experience of Uzbekistan proves that it was not enough to diminish shocks of transformation by more gradual and milder reforms but it was also necessary to sustain industries by implementing active industrial policy. This required continued support of some major enterprises of the economy especially in industrial sector, via credits and subsidies without hasty imposition of unjustifiable constraints from beginning. An evolutionary approach combined with active interventionist state industrial policy proved to be more viable both in respect of protection of real and in promotion of economic growth

Stabilization Policies

Kazakhstan adopted a comprehensive stabilization and reform programme following introduction of currencies in late 1993. However large credits were extended to clear interenterprise arrears which increased fiscal and current account deficits due to which the Central government deficit increased to 7.5 per cent in 1994. Subsequently, monetary policy was tightened, assisted by measures to reduce fiscal deficit. By 1995 the budget deficit reduced to 2.7 per cent (Table 4.2). The need to maintain social indicators complemented by Russian financial crisis brought the government balances to high level during 1996-99. The tighter monetary stance adopted by Central Bank of Kazakhstan particularly after 1994, as shown by sharp reduction in monetary (M_2) growth, led to sharp deceleration in inflation from 1995 (Table 4.2). The year of negative M_2 growth 1998, is associated with negative GDP real growth. The inflation during 1998 and 1999 was under 10 per cent.

Uzbekistan failed to adopt strong stabilization measures in conjunction with introduction of sum coupon. Monetary expansion remained large until 1994 and from 1995 monetary contraction was mild in comparison to Kazakhstan. In 1993 Uzbekistan had one of the largest budget deficits but during 1998-1999 it had the lowest; as a result of new measures undertaken by the government like value-added, property, land and mining taxes, introduction of a new ecological tax on assets of all non-agricultural enterprises and a tax on enterprises gross sales. Reduction of expenditures on state administration and water and electricity subsidies also contributed to improvement of state budget.[14] Inflation during 1998-2000 has been around 30%.

The currency - deposit ratio is high in Kazakhstan when compared to Uzbekistan. This may be due to restrictions on cash withdrawals in Uzbekistan. From 1996, as is clear from Table 4.2, the currency deposit ratio has stabilized, showing increased confidence of the people in the banking and financial sectors. The high level of velocity in Kazakhstan reflects the greater degree of financial intermediation, removal of barter trade. For both counties this has been continuously increasing from 1993. One interesting thing to note is that almost from 1996, Uzbekistan growth rate was approximately double to that of Kazakhstan, when Kazakhstan has stressed on sharp disinflation policies by monetary tightening, giving support to the conclusion that very sharp decrease in inflation may impede growth process.[15]

---

14 Islamov Bakhtior, n.8, p.109.

15 Refer n. 45, Chapter III.

Table 4.2: Selected indicators

		1992	1993	1994	1995	1996	1997	1998	1999
Inflation annual/change (based on CPI)	K	1515.7	1622.3	1829.9	196.3	39.1	17.4	7.3	8.4
	U	626.9	534.2	1568.3	304.6	54.0	70.9	29.0	29.1
General govt. Balances (as % of GDP)	K	-18.4	-4.1	-7.5	-2.7	-4.7	-6.8	-8.0	-5.3
	U	-18.4	-10.4	-6.1	-4.1	-7.3	-3.0	-2.0	-0.9
M_2 growth	K	-	581	540.2	113.7	20.9	41.9	-25.0	3
	U	-	784	726.2	144.3	113.3	36.0	33.0	32
Currency to deposit ratio	K	-	0.5	0.9	1.2	1.5	1.4	1.4	-
	U	-	0.3	0.5	0.6	0.8	0.8	1.4	-
Velocity	K	-	2.0	7.2	8.3	10.1	10.6	12.2	-
	U	-	4.2	6.8	8.5	7.1	8.0	8.3	-

K-Kazakhstan, U-Uzbekistan

Sources: 1. *World Economic Outlook*, Oct. 2001, Table 13.

2. Bakhtior Islamov, op.cit., p.108.

3. Gurgen, Emine, et.al., eds., "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan", *IMF Occasional Paper No.183*, p.28.

Fiscal Adjustment and Privatisation Proceeds

In 1994 Kazakhstan's budget deficit was 7.5 percent because of poor revenue performance and a mismanaged initiative to clear enterprise arrears. It again rose in 1997 to almost 7 per cent. (Table 4.1) partly as a result of public investment programme, but it also reflected reduction in other expenditure arrears. The deficit continued to be high in 1998 due to costs of pension reform that took effect on Jan 1, 1998. In Uzbekistan deficit increased to 10 per cent in 1993 but later decreased to 4 per cent by

1995, as a result of IMF adjustment programme. The adoption of new tax measures and maintenance of tight expenditure controls and cuts in lending reduced deficit to about 2 per cent of GDP in 1998.[16]

There has been large build up of pension and payment arrears in Kazakhstan. Budgetary arrears equivalent to 5 per cent are now being reduced, due to commodity boom. Government investment has suffered, falling to 2 per cent of GDP even which is devoted to Kazakhstan new capital Astana. In contrast public investment are 7% of GDP in Uzbekistan. Social sector investments have also been severely eroded in Kazakhstan - invested 3.4 and 2.4 per cent of GDP on education and health, while Uzbekistan invested 7.2 and 3.3 per cent of GDP respectively.[17] Kazakhstan is fastest country within the group to privatize the state enterprises quickly. By 1997, all small firms were privatized and by 1999 private sector share accounted for 60 per cent of GDP.[18] Higher privatization proceeds enabled it to finance its large - budgetary deficits. But to the extent that fiscal needs drove privatization the quality of privatization may have suffered.[19]

---

16 Craig Jan., "Fiscal Adjustment" in Emine Gurgen, Harry Snoek, Jan Craig, Jimmy McHugh, Ivailo Izvorski and Ron Van Rooden, eds, "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan", *IMF Occasional Paper, No. 183,* (Washington, IMF, 1999), p.18,19.

17 Asad, Alam and Arup Banerji, "Uzbekistan and Kazakhstan: A Tale of Two Transition Paths?", *Working Paper No.2472,* (Washington D.C., World Bank, 2000), p.7.

18 Olcott, Martha Brill, *Unfulfilled Promise: Kazakhstan* (Washington, D.C., Carnegie Endowment for International Peace, 2002), Appendix 8, p.258.

19 Asad, Alam and Arup Banerji, n.17.

Table 4.3 Privitazation Proceeds, 1993-98 (% of GDP)

Countries	1993	1994	1995	1996	1997	1998
Kazakhstan	4.5	1.7	3.1	3.8	3.1	4.3
Uzbekkistan	0.2	0.7	0.8	0.8	0.5	1.0

Source: Asad, Alam and Arup Banerji, 2001, op.cit., p.7.

External Sector

Both countries had expanded their trade beyond the CIS countries. Kazakhstan exported about 74 percent of goods to non-CIS countries in 2000 as compared to 70 per cent for Uzbekistan in the same year. Kazakhstan imports 57 per cent of goods form non-CIS countries while Uzbekistan imports about 73 per cent from non-CIS countries.[20] By these standards, Uzbekistan seemed to have diversified its trade relations more than Kazkhstan. But Kazakhstan imports are double of Uzbekistan and its exports are more than double of Uzbekistan. The high market diversification for Uzbekistan is reflective of Uzbekistan's import-substitution led industrialization.[21]

[20] Refer Tables 3.8 in Chapter III.

[21] Machinery and machine appliances; electrical equipment sound and television apparatus, transport equipment's form the largest component of imports. See Statistical Survey of Uzbekistan, *Europa World Year Book 2001*, vol.11, p.4285.

Table 4.4: Selected Indicators of External sector Policies
a) Kazakhstan

	1993	1994	1995	1996	1997	1998	1999	2000
Exchange Rate avg.	2.5	36.25	60.95	67.30	75.44	78.30	119.52	142.13
Current Account Balance								
In million of US dollars	-641	-905	-213	-751	-799	-1236	-233	1074
In per cent of GDP	-9.1	-7.7	-1.2	-3.5	-3.6	-5.5	-1.4	6.3
External Debt								
In billion Of US $	1.8	2.8	3.4	3.9	4.0	6.0	5.7	-
In % of GDP	11.7	26.3	20.7	18.7	20.4	27.5	34.1	-
FDI								
In million of US $	473	635	964	1137	1320	1143	1468	1244
In $ of GDP	10.1	6.0	5.8	5.5	5.9	5.1	8.7	6.8
Reserves								
In million of US $	711	1216	1660	2244.0	2221.0	1965	2002.0	2096
In month of imports	1.65	3.4	3.7	4.06	3.7	3.5	4.25	3.67

b) Uzbekistan

	1993	1994	1995	1996	1997	1998	1999	2000
Exchange Rate avg.	1	9.80	29.77	40.68	66.31	94.56	124.72	236.92
Current Account Balances								
In million of US dollars	-429	118	-21	-980	-584	-102	-176	50
In percent of GDP	-8.4	-0.5	-0.2	-7.2	-4.0	-.68	-1.1	.37
External Debt								
In billion Of US $	1.0	1.1	1.8	2.3	2.7	3.2	4.5	-
In % of GDP	18.9	19.5	17.8	17.1	18.0	21.7	26.9	-
FDI								
In million of US $	48	73	100	84	167	226	-	-
In $ of GDP	.9	1.1	1.0	0.6	1.2	1.5	-	698
Reserves								
In million of US $	1021	1330	1867	1901	1167	1168	1242	1100
In month of imports	3.8	5.9	6.9	5.4	3.7	5.0	5.7	5.4

Sources: Prepared from Tables given in Chapter III; *Key Economic Indicators 2001*: Asian Development Bank

The exchange rate in both countries has been depreciating fastly showing low confidence in the economies. (Table 4.4) However new measures to curb parallel market activity has been taken Uzbekistan in 2000 and the state determined exchange rate were freed, hence, exchange rate rose to 236.92 in 2000 from 124.72 in 1999.

On question of vulnerability of the economies, both of them are vulnerable to external shocks. The external debt-GDP ratio has been rising in both countries. A high debt ratio of about 34.1 in Kazakhstan is surely not sustainable. Uzbekistan debt level is low compared to Kazakhstan at 26.9 in 1999 (Table 4.2b) International reserves are able to finance only 3.7 months of imports in Kazakhstan in 2000, as compared to 5.4 months of imports in Uzbekistan in same year. International reserves should be able to finance at least twelve months of imports and expected change in international flows during a year. Comparatively Uzbekistan fares better than Kazakhstan. In terms of FDI, Kazakhstan had outpassed Uzbekistan and it has received uptil now about 76 per cent of FDI in all Central Asian States.[22] Kazakhstan received 5.7 billion $ of FDI cumulatively during 1993-98, while in Uzbekistan it amounted to only 698 million US $. Kazakhstan has been receiving FDI equivalent to 6 per cent of GDP during all these years, while Uzbekistan FDI amounted to less than 1.5 per cent of GDP during the same time (Table 4.2).

Destination wise Kazakhstan has been receiving FDI in extractive industries,[23] especially oil and gas, with low multiplier effects in the economy. While in Uzbekistan FDI flows into sectors with large multipliers i.e. consumer goods, automombiles, electronics, textiles, chemicals, agro-processing. It is directed by government into sectors that are strategic and consistent with its vision of an industrialized nation. (Asad Alam and Arup Banerji, 2000).[24]

---

22 McHugh, Jimmy, "Capital Flows and External Debt", in Gurgen Emine et.al. (eds.), "Economic Reformism Kazakhstan, Kyrgyz-Republic, Tajikistan, Turkmenistan, and Uzbekistan", *IMF Occasional Paper No.183* (Washington, IMF, 1999), p.54.

23 Olcott notes, "From 1993 to 1999, Kazakhstan received $9.29 billion in FDI about 3 per cent of which went to the oil and gas industry; most of the rest went to the steel, non-ferrous metallurgy, energy and other industries". Olcott, Martha, Brill, n.18, p.145.

24 Asad, Alam and Arup Banerji, n.17, p.9.

Due to certain objections raised by scholars, we also present some more statistics to clarify the situation.[25]

Table 4.5: External Sector Indicators: 1998

	Kazakhstan	Uzbekistan
Short term debt to total debt	46.8	21.5
Debt Service to Export Ratio	13	13.2
Resrves to short term debt	1.36	1.72
Reserves to debt service	2.8	30.6

Source: Calculated from *Europa World Year Book, 2001* See Introductory Survey, Statistical Survey section on Kazakhstan & Uzbekskitan, p.2266, 2270, 2271, 4281, 4285.

The table shows that short-term debt is very high in Kazakhstan as compared to Uzbekistan. This, combined with the fact that reserves position to short-term debt and debt service is not very strong, could create a problem in future, notwithstanding the fact that debt service to exports ratio is low in 1998. Comparatively Uzbekistan stands in better position to Kazakhstan in respect of all above statistics.

Social Indicators

It is possible to state-that experience in first-decade of reforms in FSU witnessed a direct correlation of radical reforms with a sharp increase of share of population under the poverty line. Kyrgyzstan that adopted pure 'shock therapy' resulted in 76 per cent of population under the poverty line from an initial level of 12 per cent, an increase of more than 6 times. Similarly the increase was about ten times from an initial level of 5 per cent of population to 50 percent. Uzbekistan gradual reforms which permitted the cushioning of all shocks much better, had increased the ratio by about 1.2 times lowest among all five countries. Also interesting is to note that Uzbekistan that had second largest share of people under poverty

---

25 According to Alam Asad and Arup Banerji months of import coverage and external debt-GDP ratio are misleading for Uzbekistan since import are severely compressed and give an upward bias to import coverage figures. Since foreign exchange is set at overvalued rate, GDP figures in US dollars is biased upward and ratio of external -debt to GDP ratio is biased downward. Asad Alam and Arup Banerji, n.17.

line managed to restrict to the lowest percentage of poor-people. (Table 4.6).

Table 4.6 Share of Population in Poverty

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
1987-88	5	12	26	12	24
1997-98	50	76	85	48	29

Source: Bakhtior, Islamov, 2001, op.cit., p.154, Table 4.6

Kazakhstan has slipped dramatically in terms of life expectancy at birth, driven mostly by a rapid fall, in male life expectancy. This was 59 years as compared to 66 years in Uzbekistan as of 1998. [26] Educational participation has been comparatively poorer in Kazakhstan.

Table 4.7: Changes in School Enrollment Patterns

	Primary enrollment as % of relevant age		Secondary enrollment % of relevant age group		Tertiary enrollment on % of relevant age group	
	1980	1996	1980	1996	1980	1996
Kazakhstan	85	98	93	87	34	32
Uzbekistan	81	78	106	94	26	36

Source: Alam Asad and Arup Banerji, op.cit., 2001, p.10.

Kazakhstan spending on health and education is about half that in Uzbekistan. The deliberate cuts in social spending resorted to in Kazakhstan in response to fiscal pressures, is of serious concern, as it risks under investment in human capital stock and undermines the future growth potential.[27]

Other indicators reflect a higher level of social break down in Kazakhstan. Male suicide rate is four times higher in Kazakhstan at 38 per

26 Asad Alam and Arup Banerji, n.17., p.9.

27 Ibid., p.10.

100,000 males as compared to Uzbekistan's 9 per 100,00 males. Also male suicide rate in Kazakhstan is more than 4 times that for females compared with a ratio of 3 in Uzbekistan.[28]

In Uzbekistan, the government's strategy has been focussing on maintaining as far as possible a high level of achieved human development and adopting social infrastructures to new market conditions. Social expenditures in 1998-1999 were more than 45 per-cent of total expenditures and about 15% of GDP, highest among all the five countries.[29]

In terms of social safety nets, the two countries have adopted drastically different approaches. In Uzbekistan, policy makers have revitalized and strengthened traditional 'mahalla' system as the primary vehicle for providing social assistance to the most vulnerable groups in the society. By contrast, Kazakhstan is very advanced with pension, reform, with private pension funds accounting for 45% of all contributions. Social assistance funds accounting for 45% of all contributions. Social assistance payments from the government are generally low and poorly targeted.[30]

Social Development & Privatization

In Uzbekistan according to the law, hired people in the private sector have equal rights to those in the state sector as for hiring and firing procedures, social security, insurance, pension payment, for medical leaves and unemployment grants. 20 per cent of receipts from privatization proceeds are given to local authorities to support large size and low income families, provide medical supports, free medicines, and to give grants through local communities to most needy and vulnerable people.[31]

---

28 Ibid.

29 Bakhtior, Islamov, n.8, p.155.

30 Alam Asad and Arup Banerji, n.17, p.11.

31 Bakhtior Islamov, n.8, p.156, 157.

Thus, the government of Uzbekistan is trying to minimise the social cost of transformation by protecting the most vulnerable social groups and promoting entrepreneur ship providing now opportunities for able-bodied persons to work harder and earn more.[32]

The Role of Initial Conditions

Several characteristics of countries at the start of transition may have affected economic performance over the past decade. e.g. geography (endowments of natural resources and proximity to western markets), years spent under central planning, nature of economic development under socialism (extent of overindustrialsiation, military output and repressed inflation).

Martin[33] has tested for the influence of initial conditions on economic performance using the indicators developed by the Melo, Denizer, and Gelb (1997)[34] aggregated into three categories structure, distortions and institutions for the period 1990-99 for 20 countires in transition.[35]

- Structure includes share of industry degree of urbanization, share of trade with socialist block, richness of natural resource endowment and initial income.
- Distortions refers to repressed inflation, black market exchange rates, trade shocks arising from dissolution of Soviet Union,

32 Ibid., p.157.

33 Martin, Ricardo. "Revisting Regression Analysis: Initial Condition Polices and Growth" *Background Paper* (Washington D.C. World Bank, 2000).

34 de Melo, Martha, Cavdet Denizer, Alan Gelb and Stoyan Tenev , "Circumstances and Choice: The Role of Initial Conditions and Police is in Transition Economies", *Policy Research Working paper No. 1866,* (Washington D.C. World Bank, 1997).

35 The present study is cited from World Bank, *Transition The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union* (Washington D.C, World Bank, 2002), pp.19-20.

extent of prior economic reform within centrally planned system, degree of economic stagnation prior to transition.

- Institutions encompassed such variables as years under central planning, location in relation to Western markets, and experience with nation hood.

1. The results show that initial conditions are more important factors in explaining the differences across countries during initial period of output decline than over full ten years of transition. The three indicators of initial conditions explain 51 percent of variation in average rate of growth across countries during 1990-94 but only 44% of variation in average growth during 1994-99.
2. Initial distortions are most closely associated with lower performance during 1990-94. Initial institutions are more strongly associated with variations in subsequent performance (1995-99).
3. Liberalisation policies have a stronger positive impact during 1995-99, while initial conditions have a strong impact on the earlier period.

Initial conditions Compared

Both counties gained independence in 1991 after a common legacy of about 55 years of Tsarist domination and 71 years of Soviet rule. Both had similarities in their economic structure, macroeconomic imbalances and similarly social indicators, structure macroeconomic imbalances and similar social indicators.

Yet, in many other ways they were different Uzbekistan was more populous, 60 percent of population was below the age of 16 and also had a more ethnically homogenous population with 70 percent of the population of Uzbek ethnicity. Kazakhstan has 40 percent of population Kazakhs and a large Russian population. Strong economic ties with Russia in terms of trade and financial flows also meant that events in Russia had a larger impact on economic evolution in Kazakhstan. Historically, Uzbekistan has a thousand year history of settled civilization while Kazakhstan was nomadic till early 20 century.[36]

The structure of production was quite different having implications for growth and future course of economic reforms Uzbekistan was primarily a cotton producing economy, contributing to 60 percent of agricultural output and 30 per cent of export earnings having forward linkages in the economy in terms of ginning, and textiles production. This scenario combined with agriculture based food industry meant that more than 60 per cent of industrial output was from manufacturing. Industrial sector in Kazakhstan was skewed towards extractive industries - fuel, energy, metallurgy, chemicals, which together accounted for about 65 per cent of industrial output.[37]

The exceptional mildness of Uzbekistan's transitional recession and subsequent growth can in part be accounted for by its low degree of initial industrialization and its cotton production.

---

36 Alam A. and Arup B., n.17, p.13.

37 ibid., p.15.

Table 4.8 Uzbekistan and Kazakhstan: Initial conditions compared (1990)

	Uzbekistan	Kazakhstan
	SIMILIAR	
Political Structure		
Number of Years of soviet Central Planning	71	71
Change in Leadership upon Independence	No	No
Structure of Economy		
Share of Agriculture in Output (%)	31	29
Share of Industry in output(%)	33	34
Share of Services in Output(%)	36	37
Macroeconomic Indicators		
Repressed Inflation	25.7	25.7
Black Market Exchange Rate (% diff. Over official)	1.828	1.828
External Debt (% of GDP, 1991)	0	0
Social Indicators		
Life Expectancy at birth (1981-90)	68.1	68.2
Secondary School enrollment Rate (%)	98	99

	DIFFERENT	
Demographic Structure		
Population (Million)	23	15
Urban population under 16	40.6	57.6
Share of Population under 16	60	40
Population Gowth rate	2.5	1.2
Percentage of dominant ethnic group (1993)	70	43
Structure of Economy		
Share of Extractive Industry in Industrial Output	12	65
Share of manufacturing and food in Indusrial Output	70	33
Natural Resource Endowments and Production	Moderate	High
Proved recoverable oil reserves (mil.Met.tons)	41	449
World Rank in Production of lead, 1992	N/a	5^{th}
World Rank in Production of Cadmium, 1992	N/a	7^{th}
World Rank in Production of zinc, 1992	N/a	8^{th}
World Rank in Production of copper, 1992	N/a	9^{th}
Macroeconomic Indicators		
GNP per capita (PPP, US$1989)	2.740	5.130
GDP (Billion US$)	23.7	40.3
GDP Growth Rate, 1981-89	3.4	2.0
Exports (% of GDP)	29	74
Social Indicators		
Poverty (%, headcount index)	42.7	29.2
Poverty (% below $2 a day) Uzb.: 1993, Kaz.1996)	26.5	15.3

Source: Alam Asad and Arup Banerji, op.cit., 2001, p.14..

Buoyant revenues from cotton helped to finance revenues in face of loss of transfers from Soviet Union. It also cushioned the adjustment to transition by increasing its share of employment as a result of net migration to rural areas.[38] It successfully prevented the collapse of its relatively small industrial sector by combining rigid state control with subsidies that were in large part financed by cotton exports.

Initial Conditions and Reform Strategy

Kazakhstan has extractable amounts of many metals and some of richest oil fields. At independence it was one of the largest exporters of range of metals and was beginning to realize the potential of unexploited oil reserves along its Caspian shore. The perceived need to quickly attract foreign investors with foreign capital and technology for economic development of this oil led Kazakhstan to adapt market - oriented policies that provided rapid infusion of foreign investments into the extractive sector. Substantial concessions were offered to investors, including depreciation allowance as well as generous tax breaks. This has led to under - taxation of minerals sector in Kazakhstan leading to fiscal crisis in late 1990's and abysmally low public investment below 2 per cent of GDP.[39] Politically difficult decisions were held back due to expectations of oil boom to restore fiscal crisis.[40]

Uzbekistan on other hand depended heavily on energy and grain imports and a lower level of initial industrialization, led government to adopt autarkic polices in support of energy and grain self-sufficiency and import-substitution led industrialization. It's own resource endowments of

---

38 Pomfret R. and Anderson, K.H., "Uzbekistan: Welfare Impact of Slow Transition", *UNU/WIDER Working Paper No.135*, (Helsinki, UNU/WIDER, 1997).

39 Alam A. and Arup B., n.17, p.16.

40 Richard M. Auty, "The IMF Model and Resource - Abundant Transition Economies", *UNU/WIDER Working Paper No. 169*, (Helsinki, UNU/WIDER, 1999), p.19.

cotton and gold played a key role in maintaining foreign exchange inflows providing adequate revenues, when output collapsed and transfers from Soviet Union ended, through exports. According to Zettelmeyer energy self-sufficiency had a significant positive effect on output growth.[41] According to him, cotton revenues and energy-self-sufficiency relieved the import compression that other transition economics experienced and that these two factors are ore important causes of mild transition than is government policy.

The preceding discussion showed that Uzbekistan which adopted a gradual strategy of reforms performed not worse than Kazakhstan. Privatization through voucher scheme in Kazakhstan, monetised the economy as people sold vouchers and increased inflation. Similarly very early stabilization measures, affected the supply side, not matched by structural reforms during early part of transition. This led the state to cut expenditure on social sectors due to which social indicators suffered in Kazakhstan. Integration with the world economy worsened current account balances by increasing imports. Early stabilisation measures by restricting monetary supply led to early disinflation, leading to output collapse. Fast reallocation of resources from public sector to private sector have worsened efficiency of resource allocation as people who grabbed property were busy in transferring funds to foreign banks rather than increasing the efficiency of enterprises.

The state led approach in Uzbekistan adopted import-substituting industrialisation which to a large extent prevented output collapse as

[41] Taube G., and Zettelmeyer, "Out put Decline and Recovery in Uzbekistan: Past Performance and Future Prospects", *IMF Working Paper 98/132,* (Washington D.C., IMF, 1998). However he notes that often, export of energy impedes growth because of non-payment by importers resulting in arrears.

industries diversified and new industries came up that did not existed before. Existence of public sector along with emergence of new private sector is in conformation to the evolutionary approach of entry and exit. Even in external sector, Uzbekistan compared step to step with Kazakhstan and in some cases was much better. The examples of the two countries shows, that if gradual reforms are not better option than Big-bang approach, they are in no way worse than them. However, strategy to reforms should depend on the initial conditions and structure of the economy.

Initial conditions affected the macro-economic outcomes in the two Central Asian countries. Uzbekistan rich source of cotton and gold earned revenues via exports into the international markets and provided revenues, at time of loss of transfers from Soviet Union. This favoured a state-led approach in Uzbekistan. Kazakhstan, in contrast, needed FDI to exploit its extractive industries and hence adopted market reforms faster than Uzbekistan. The need for finances at times of crisis, provided by IMF, met by conditionalities also affected the reform strategy. In the later years the macro-economic outcomes were a direct result of the reform strategy adopted and the speed the of reform programme.

Chapter -V
Conclusions

Even before the fall of socialist regime in the former Soviet bloc countries, all these countries had started moving towards a market economy. This was due to the fact that such economies were not able to show signs of recovery even after rising share of investment in GDP during the later half of 20^{th} century. Health indicators were declining and people were frustrated by the fact that people in other parts of the world were able to enjoy luxuries and had diversified choices instead of queuing and shortages.

Centrally planned economies failed due to intrinsic inefficiencies. Prices and targets were set by the central planning board. However, lack of information due to arbitrary pricing resulted in either a shortage economy or over production. Shortages in one sector of economy soon resulted in overall shortage as products of one sector were used as inputs in other sectors. Hoarding of inputs by firms and goods by people in such situation, further aggravated the situation. Soon the whole economy became a shortage economy. Shortages allowed firms to operate in a seller's market, reducing incentives to improve quality. Due to lack of property rights and paternalistic behaviour by the state, managers had little reason to let enterprises perform and used inputs inefficiently. Many firms added negative values, where at world prices the cost of their inputs would have exceeded value of their outputs. Moreover, heavy industry sector was massively overbuilt while, light industry and services sector were repressed, and consumer goods lagged behind. All this brought deep inefficiencies of planning over time.

To launch sustainable growth in the devastated socialist economies, transition to a market economy was desired. It involved creating private property, ownership rights, imposing hard-budget constraints on firms, prices to be determined by market forces of demand and supply. It also involved international integration, reform of trade system, liberalizing capital inflows and foreign direct investment. Further, it involved institution building. It included Bankruptcy laws, judiciary, tax collection agencies and regulatory agencies.

However, policies implemented by the IMF overemphasized stabilization and structural reforms and ignored the role of institutional building. The Washington Consensus was catalyzed by experience of Latin American countries that already had market economies and were not just in transition to such a system. The same policies were applied to the countries in transition and were not suited to their initial conditions.

The policy makers were obsessed with the neo-classical economics. But they forgot that during transition access to information may not be easy especially when institutions were not in shape. They believed that change in ownership is a sufficient condition for capitalism to follow; capitalist relations on their own would form institutions, political organisation and ideology, required to operate capitalist base. The fact that neo-classical paradigm says little about real world institutions for dealing with information asymmetry, is of marked significance in Judging its applicability to designing of reforms.

Soon a debate emerged on the speed of reforms. Those who advocated a quick change called shock-therapists and were obsessed by the views that market economy maximises welfare, achieves a general equilibrium and an efficient allocation of resources. Hence according to their view centrally planned economies should be reformed as fast as possible to maximize welfare because growth is all about increasing peoples welfare. However, gradualists were of the view that institutional building is a long term process and the pace of reform should match institutional building. Otherwise institutional vacuum could lead to insider trading, corruption and welfare loss in the society. They took a evolutionary approach to reforms. Rapid change could destroy the society stock of personal knowledge and best way is to explore old organisations with the view where change could be accomplished by natural selection.

The Central Asian states were no exception. The reforms programmes in first few years concentrated more on stabilization and structural reforms rather than institutional building that led to real welfare loss. Several lessons can be drawn from diverse experiences of five countries in meeting the challenges posed by transition.

Fast reformers – Kazakhstan and Kyrgyzstan have progressed much further than other three countries in moving toward a market framework. However, these countries faced, much more transitional traps than countries like Uzbekistan which adopted gradual reforms. An adequate strategy may call for balancing the trade-off between reform process and the decline in real variables like employment and incomes.

The brunt of fiscal adjustment in Central Asian states has been borne by expenditure cuts with insufficient attention paid to level and quality of government expenditure on social services basic infrastructure, operations and maintenance. Efforts to raise revenue have been thwarted by the fact that tax administration are ill-equipped to enforce tax collections and underground economies largely escape taxation. Further reforms are needed in the area of tax collection. This could happen by economic recovery, better prioritising of expenditure, through civil service reforms, curtailing non productive expenditure and adoption of public investment programmes.

All these states have adopted their currencies, formed central banks to monitor policies and interest rate controls have been lifted. But banking systems of Central Asian States are still at a fairly elementary stage of development with scope for institutional strengthening and improvements in banking practices. Few large state banks account for bulk of transactions acting more as agents of state rather than independent financial intermediaries. An important task ahead is to restructure their banking systems to strengthen the effectiveness of monetary policy and supporting economic recovery already underway. Action will be needed to safeguard against protracted structural lending to bail out failing banks and enterprises, arrest currency substitution and promote an efficient and solvent banking systems. This will require improving the functioning of legal and accounting frameworks, adopting prudential regulations and strengthening bank supervision and enhance public confidence in the financial systems.

External debt has been rising considerably in these states due to financing of budget deficits, growing import bills to benefit from a cheaper source of finance given large differentials between foreign and domestic interest rates. The borrowing strategy concentrated on short term considerations with insufficient attention to medium term debt sustainability issues. Also, institutions for monitoring of external debt were weak. Growing external-debt could trigger debt-servicing difficulties. Hence these countries need to change their strategies and strengthen institutional arrangement for external debt management. Benefits from official and private capital inflows would be greater if they are channelled toward productive investment.

To strengthen confidence of private savers and investors continued modifications of state intervention in economic activity is needed. This can be achieved by limiting functions of the state essentially to provision of reliable public services, establishment of simple and transparent regulatory framework, enforcement of property rights and a fair judicial system. Finally tackling governance and corruption issues will be an important challenge for Central Asian states where such problems have frequently arisen. The most effective way of dealing with it lies in structural, legal and institutional reforms. Such reforms can be expected to limit conditions that breed corruption, promote private sector activity and help restore confidence in the economies.

The reforms in Central Asian states were costly. All of them experienced output and employment declines. The disintegration of FSU and the fact that these countries had a high intra-regional trade was a significant factor. Macroeconomic stabilization and disinflation by rigid monetarist policies affected resource allocation function of the banks and lastly mass privatisation in absence of financial institutions channelled scarce resources in offshore banks. High inflation reduced demand in the economy which affected investment. Investment was also affected by financial disintermediation as stabilization policies reduced financial depth in the economy. Hence the IMF advocated policies that tend to affect the demand side in the economy for stabilization affected also the supply side leading to adverse circumstances for these economies. Also changes in environment of lack of institutions lead to welfare loss, corruption and chaos in the economy.

However, the two particular cases of Uzbekistan and Kazakhstan that epitomized the gradual strategy and the shock-therapy has provided a deep insight. Uzbekistan adopting a state led approach was able to restrict cumulative output decline to only 20 per cent of it 1989 level while in Kazakhstan adopting fast reforms the cumulative output decline was about 40 per cent of its 1989 level. Moreover Uzbekistan had made up for the output decline and its real GDP in 2000 was 97.6 percent of its 1989 level, while Kazakhstan's-real GDP in 2000 was only 68.6 per cent. Similarly, except in 2000, the growth rate in Uzbekistan has been higher, compared to Kazakhstan all these years. Similarly, Uzbekistan outperformed Kazakhstan in its industrial and agricultural sectors.

The important factor behind better results in Uzbekistan was strategy of shifting towards a more industrialized economy keeping the traditional sectors to a reasonable extent and building new industries. Growth in production of durable consumer goods like cars and television sets which has not been produced before also contributed to the better performance. Experiences of Uzbekistan proves that it was not enough to diminish shocks of transformation by more gradual and milder reforms but it was also necessary to sustain industries by implementing active industrial policy. An evolutionary approach combined with active interventionist state industrial policy proved to be more viable both in respect of protection of real and in promotion of economic growth.

Kazakhstan adopted a comprehensive stabilization and reform programme while Uzbekistan adopted mild stabilization measures. In Kazakhstan budget deficits increased due to clearing of budgetary and inter-enterprise arrears. On the other hand, Uzbekistan in 1989-99 had one of the lowest budget deficits due to imposition of taxes. From 1996, Uzbekistan growth rate was almost double to that of Kazakhstan, when Kazakhstan stressed on sharp disinflation policies by monetary tightening. Very sharp decrease in inflation in Kazakhstan may have impeded growth by financial dis-intermediation. Privatisation was fastest in Kazakhstan. But to the extent that high budget deficits, pension and payment arrears drove privatisation, the quality of privatisation suffered in Kazakhstan.

Both countries are vulnerable to external shocks. While reserves are able to finance only 3.7 months of imports in Kazakhstan in 2000, they were able to finance about 5.4 months of imports in Uzbekistan. FDI has been high in Kazakhstan, but it has been in extractive industries with low multiplier effect, while in Uzbekistan the FDI has been in sectors like consumer goods, automobiles, electronics, textiles chemicals, agro-processing. It is directed by government into sectors that are strategic and consistent with its vision of an industrialised nation. The short term debt to total debt in Kazakhstan stands at 46.8 per cent as compared to 21.5 per cent in Uzbekistan. Also, the reserves to debt service was 2.8 per cent in Kazakhstan while it was 30.6 per cent in Uzbekistan.

There was a direct correlation of radical reforms with increasing share of population under the poverty line. While the ratio increased from 5 per cent in 1987-88 to 50 percent in 1997-98 in Kazakhstan, it increased from only 24 per cent to 29 per cent during the same period in Uzbekistan. Fiscal pressure has reduced spending on health and education, in Kazakhstan and is of serious concern since it risks investment in human capital stock and undermines future growth potential. In Uzbekistan, people have equal rights to those in state sector regarding social security, hiring and firing, insurance, pension-payment and unemployment grants. The government of Uzbekistan is trying to minimise the social cost of transformation by protecting the most vulnerable social groups and promoting entrepreneurship, providing new opportunities for able – bodied persons to work-harder and earn more.

However, some scholar have reasoned the better performance of Uzbekistan due to it's better initial conditions. Uzbekistan rich source of cotton and gold earned revenues via exports into the international markets at times of loss of transfers from Soviet Union. It successfully prevented the collapse of its relatively small industries that were in large part financed by cotton exports. This favoured a state led approach in

Uzbekistan. On the other hand, Kazakhstan needed FDI to exploit its extractive industries and hence adopted market reforms faster than Uzbekistan. The need for finances, at times of crisis, provided by IMF, met by conditionalities also affected the reform strategy. However, in later years the macroeconomic outcomes were a direct result of reform strategy adopted and the speed of reform programme. The outcome of reforms depended not only on initial conditions but on what strategy was chosen and how it was implemented. Attempts to minimize role of state, proved unjustified especially in Central Asia. The policies implemented were able to deregulate the centrally planned system but could not provide a successful transition, without falling into economic and social costs. The relative success of Uzbekistan depended not only on better initial conditions but its ability to adjust IMF recommended policies, make them less destructive and cushioned negative effects by state intervention and better quality of governance.

Transition from a centrally planned economy to a market economy cannot happen overnight. Hence state participation in co-ordination of economic activities is of significance while market institutions are built up. Each country needs to find a proper mix and timing of series of steps leading towards a justified increase of market instruments based on progress in building respective institutions in each particular case. The path and sequence of market reforms and opening up of economy depend on specific situation in the country. Formation of new institutions and especially financial institutions, before the destruction of old ones, is needed. An efficient development oriented state can become an accelerator to market reforms and economic growth.

Output decline was deeper where initial conditions were less favourable to radical reforms. Fast liberalization of prices triggered high inflation in countries where distortions were higher and monetary over-hang was large. Attempts to curb rapidly increasing inflation by rigid monetarist policies led to shrunkage of money based transaction segment of the economies. Mass privatization produced a class of insider owners who made large fortunes and later opposed the reform programmes. All these factors, led to capital flight as people tried to hedge risks in uncertain conditions in foreign banks. The import - intensive external trade of Central Asian States resulted in huge current - account deficits after the opening up of economies. They also lacked appropriate trade policies that could protect domestic industries and promote exports of manufacturing goods to hoard currency markets. Dependence on traditional transport routes for energy has also effected them.

All this had negative welfare effects. Radical reforms as a rule were not justified. A balance between stabilization and financial intermediation should have achieved sustained and rapid economic growth. Output decline was larger in countries adopting strict monetary policies. Low inflation along with maturity of financial institutions is the key to cushion transformation shocks and avoid huge output decline. The comparative analysis in Chapter IV shows that Uzbekistan which adopted gradualist approach to reforms conforming to evolutionary economics, outperformed the other four Central Asian economies. The better results in Uzbekistan were supposed to be a result of better initial conditions; cotton and gold providing adequate revenues in times of crisis. However, the econometric study by Martin has showed that in later years the growth performance was a direct result of the reform strategy.

Neo-classical economics has failed to provide a theoretical aspect for reforms. The elements of reform advocated by Washington consensus were aiming at countries that already had market economies and were not in transition to such a system. It neglected elements of institution building, corporate governance and redesign of role of state instead of urgent withdrawal from economic activities. Institution building in such economies is a gradual process based upon new organisations, new laws and changing behaviour of various economic entities. Therefore in order to explain economic phenomenon of transition, neo-classical economics must be combined with theories which can offer solutions in the field it neglects.

So what is the key to their success? Firstly, financial institutions, to promote money-based transaction, should be built up. Accordingly, a conducive business environment for private sector development should be created. State should eliminate subsidies on agriculture and promote it via price incentives. Gradually, they could move from a import - substituting industrialization to a export led industrialization. Incentives should be given to entrepreneurs to produce exportable agricultural and manufactured goods that could earn hard - currency, rather than huge state enterprises that cannot compete in foreign markets. It could reduce vulnerability to external shocks. Investments in manufacturing, transport, telecommunications, tourism infrastructures can help in this direction. State trading should be replaced by enterprise to enterprise trading. Since multiple exchange rates create distortions, exchange rates should be unified after which current account convertibility could be introduced. As whole economic atmosphere improves, FDI should be attracted into sectors that have multiplier effects which will help in building reserves, which in turn could solve balance of payments problem. All these measures if taken, could show these five countries developing into new breed of 'Asian tigers'.

Bibliography

PRIMARY SOURCES

Asian Development Outlook 2000 (Manila, Asian Development Bank Publications, 2000).

Europa World Year Book (London, Europa Publications Limited, 2001)

Key Indicators of Developing Asian and Pacific Countries (Manila, Asian Development Bank Publications, 2001)

United Nations Economic Survey of Europe [From 1990-91 to 2001] Geneva, UNESE Publications.

World Development Report [From 1990 to 2001] New York, UNDP Publications.

World Economic Outlook [January to October 2000] Washington, D.C., International Monetary Fund.

WEBSITES

www. imf.org

www. worldbank.org

www.oecd.org

www.unece.org

www.rferl.org

www.eurasianet.org

www.wto.org

www.unece.org

www.ebrd.com

SECONDARY SOURCES

BOOKS

Alam, Asad and Arup Banerji, ***Uzbekistan and Kazakhstan: A Tale of Two Transition Paths***? Working Paper no. 2472 (Washington D.C., The World Bank, 2000).

Auty, Richard M., ***The IMF Model and Resource - Abundant Transition Economies Kazakhstan and Uzbekistan***, UNI/WIDER Working Paper no. 169 (Helsinki, UNU/WIDER, 1997).

Brabant. Josef M. Van (ed.), ***Economic Reforms in Centrally Planned Economies and their Impact on the Global Economy*** (Hong Kong, Macmillan Academic and Professional Ltd, 1990, 1991).

Brus, Wlodzimers and Kazimierz Larki, ***From Marx To The Market: Socalism In Search Of An Economic System*** (New York, Oxford University Press, 1989).

Citrin, Daniel A., and Ashok K. Lahiri (eds.), ***Policy Experiences and Issues in the Baltics, Russia and other countries of the former Soviet Union***, IMF Occasional Paper no. 133 (Washington, International Monetary Fund, 1995).

Cottarelli, Carlo, ***Disinflation in Transition 1993-97***, IMF Occasional Paper no. 179 (Washington D.C, IMF, 1999).

Dawies, R.W, Mark Harrison and S.G Wheat Croft (ed.), ***The Economic Transformation of the Soviet Union 1913-1945*** (New York, Cambridge University Press, 1994).

de Castello Branco, Marta, ***Pension Reform in the Baltics, Russia, and other countries of the former Soviet Union***, IMF Working Paper 98/11 (Washington, International Monetary Fund, 1998).

Dellin, L.A.D. and Herman Gross (ed.), ***Reforms in the Soviet and Eastern European Economies*** (Toronto shondon, Ledxington Books, 1972) Studies in Internal Development and Economies.

Fischer,Stanley, Ratna Sahay, and C.Vegh, ***From Transition to Market: Evidence and Growth Prospects***, IMF Working Paper No. WP/98/52 (Washington D.C., International Monetary Fund, 1998).

Gidadhubli R. G (ed.), ***Socio Economic Transformation of Soviet Central Asia,*** (New Delhi, Patriot Publications, 1987).

Greene J.E. and P. Isard, ***Currency Convertibility and the Transformation of Centrally Planed Economies,*** IMF Occasional Paper no. 81 (Washington D.C., IMF, 1991).

Gurgen Emine, Harry Snoek, Jan Craig, Jimmy McHugh and Ron Van Rooden, (eds.), ***Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan Turkmenistan and Uzbekistan***, IMF Ocassional Paper No. 183 (Washington D.C., International Monetary Fund 1999).

Havrylyshyn, Oleh, Thomas Wolf, Julian Berengant, Morta de Castello Branco, Ron van Rooden, and Valerie Mercer - Blackman, ***Growth Experiences in Transition Countries: 1990-98***, IMF Occasional Paper no. 184 (Washington, International Monetary Fund, 2000).

Hayek, Friedrich, ***The Constitution of Libertes*** (Chicago, Chicago University Press, 1960).

Hoggorth, Robin M., and M.W. Reder (eds.), ***Rational Choice: The Contrast Between Economics and Psychology*** (Chicago: University of Chicago Press, 1987).

Islamov, Bakhtior, ***The Central Asian States Ten Years After: How to Overcome Traps of Development, Transformation and Globalisation?*** (Tokyo, Maruzen co. Ltd. 2001).

Karimov, Islamov, ***Building the Future Uzbekistan: It's Own Model From Transition To A Market Economy*** (Tashkent, Uzbekistan Publishers, 1993).

Kaser, Michael, ***The Economies of Kazakhstan and Uzbekistan,***(London, Royal Institute of International Affairs, 1997).

Kizilyalli, Husnu, ***Economics Of Transition: A New Methodology For Transforming A Socialist Economy To A Market-Led Economy And Sketches Of A Workable Macroeconomic Theory*** (England, Ashgate Publishing Ltd, 1998).

Kolodko, Gregorz W., ***Ten Years of Post Socialist Transition: the Lessons for Policy Reforms***, Working Paper (Washington D.C, World Bank, 1998).

Milanovic, B., ***Income Inequality and Poverty During the Transition From Planned to Market Economy*** (Washington D.C, World Bank, 1998).

Olcott, Martha B., ***Unfulfilled Promise: Kazakhstan*** (Washington D.C, Carnegic Endowment for International Peace, 2002).

Patnaik, Ajay, ***Central Asia Between Modernity and Tradition*** (Delhi, Konark Publishers, 1996).

Pomfret, Richard and Kathryn Anderson, ***Uzbekistan: Welfare Impact of Slow Transition*** (Helsinki, United Nations University/ World Institute for Development Economic Research: UNU/WIDER WP 135, 1997).

Pomfret, Richard, ***The Economies of Central Asia*** (Princeton New Jersy, Princenton University Press, 1995).

Richter, Sandor (ed.), ***The Transition from Command to Market Economies in East-Central Europe*** (Colorado, Westview Press, 1992).

Rosenberg, Christoph and Maarten de Zeew, ***Welfare effects of Uzbekistan Foreign Exchange Regime***, IMF Working Paper 00/61, (Washington D.C., International Monetary Fund., 2000).

Rumer, Boris, ***Central Asia and the New Global Economy: Critical Problems Critical Choices*** (Armnok: M.E Sharpe, 2000).

Schumpeter, Joseph A., ***The Theory of Economic Development. An Inquiring into Profits, Capital, Credit and Business Cycles*** (Cambridge, Mass: Harvard University Press, 1968)

Taube, G., and Zettelmeyer, J., ***Output De line and Recovery in Uzbekistan: Past Performance and Future Prospects***, IMF Working Paper 98/132 (Washington D.C, International Monetary Fund, 1998).

Valdivieso, L.M., ***Macroeconomic Developments in the Batics, Russia and other Countries of the Former Soviet Union, 1992-97***, IMF Occasional Paper no. 175 (Washington D.C, IMF, 1998).

World Bank, ***Transition the First Ten Years: Analysis and Lessons for the Eastern Europe and Former Soviet Union*** (Washington D.C, The World Bank, 2002).

World Resources Institute, ***World Resources 1994-1995,*** (London and New York, Oxford University Press, 1994).

ARTICLES/JOURNALS

Abazov, Rafiz, "Formation of Non-State Sector and Privatisation in Kazakhstan and Uzbekistan," ***Communist Economies and Economic Transformation,*** Vol. 9, no.4, 1997, pp. 431-438.

Abazov, Rafiz, "Policy of Economic Transition in Kyrgyzstan", Central Asian Survey, Vol. 2, no. 18, 1999, pp 197-223.

Aukutsionek, Sergei, "Some Characteristics of Transition Economy," ***Communist Economies and Economic Transformation,*** Vol. 9, no. 3, 1997, pp. 289-336.

Auty, R., "Mineral Wealth and Economic Transition: Kazakhsatan", ***Resources Policy,*** Vol.24, no. 4, 1999, pp 241-249.

Balcerowicz, Leszek and Alan Gelb, "Macropolicies in Transition to a Market Economy; A Three Year Perspective", ***Proceedings of World Bank Annual Conference on Development Economics*** 1994, 1995, pp. 21-44.

Balcerowicz, Leszek, "Common Fallacies in the Debate on the Transition to a Market Economy" ***Economic Policy,*** 19 (5), 1994, pp. 18-50.

Bornstein, Morris, "Frame Work Issues in the Privatisation Strategies of the Czech Republic, Hungary and Poland, ***Post Communist Economics***, Vol. 11, no.1, 1999, pp. 21-44.

Brada, Josef C., "The Transformation From Communism to Capitalism: How far? How fast", ***Post-Soviet Affairs,*** Vol.9, no. 2, 1993, pp. 87-110.

de Melo, Martha, Cevdet Denizer, Alan Gelb and Stoyan Tenev, "Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies", ***The World Bank Economic Review,*** Vol.15, no. 1, 2001, pp. 1-32.

Dornbusch, Rudiger, "Policies to Move from Stabilization to Growth", ***Annual World Bank Conference on Development Economics 1990,*** 1991, pp. 19-49.

Fischer, S., and Alan Gelb, "The Process of Socialist Economic Transformation", ***Journal of Economic Perspectives,*** Vol. 5, no.4, Fall 1991, pp. 99-105.

Gidadhubli, G.R., "Economic Tranisition in Uzbekistan", ***Economic and Political Weekly,*** Vol. XXXIX, no. 9, 1994, pp. 16-19.

Gomulka, Stanislaw, "Macroeconomic Policies and Achievements in Transition Economies 1989-1999", Paper presented at ***United Nations Economic Commission for Europe Annual Seminar***, Geneva, May 2000.

Haghayehi, Mehrdad, "Politics of Privatisation in Kazakhstan", ***Central Asian Survey,*** Vol, 16, no. 3, 1997, pp. 321-338.

Howell, Jude, "Coping with Transition: Insights from Kyrgyzstan", ***Third World Quarterly,*** no.17, 1996, pp. 53-68.

Iasin, E.G. et al, "The Reform Experience: Direction of Development," ***Problems of Economic Transition,*** Vol. 38, no. 4, August 1995, pp. 6-41.

Jasinki, P., "Regulation and Systemic Transformation", ***Communist Economies and Economic Transformation,*** Vol. 7, no.2, 1995, pp.213-227.

Kolodko, G.W. "From Recession to Growth in Post-Communist Economies: Expectations Vs Reality," ***Communist & Post Communist Studies,*** Vol.26, no. 2, June 1993, pp. 123-143.

Kornai, Janos, "Ten Years After the Road to a Free Economy: The Author's Self-Evaluation Keynote Address", ***Annual World Bank Conference on Development Economics 2000,*** 2001, pp. 49-63.

Kuzminov, I., Anan'in, O., Prostakov I. Korol'kov, M., "Economic Reform: Institutional and Structural Aspects", ***Problems of Economic Transition,*** Vol.36, no. 7, 1993, pp. 52-65.

Kuznetsov, E., "Post - Socialist Transition from a Neo-Schumpetrian Perspective: The Case of Former Soviet Union," ***Communist Economies and Economic Transformation,*** Vol.4, 1992, pp.439-454.

Major, Ivan., "Credibility and Shock-Therapy in Economic Transformation: The Hungarian Case", ***Communist Economies and Economic Transformation",*** Vol. 3, no. 4, 1991, pp. 439-454.

Martin, S., "Uzbekistan: The Silk Road to No Where", ***Contemporary Economic Policy,*** 18 (3), 1999, pp. 295-303.

Mckinnon, Ronald I., "Financial Control in the Transition from Classical Socialism to a Market Economy", ***Journal of Economic Perspectives,*** Vol. 5, no. 4, Fall 1991, pp. 107-122.

Mickiewicz, Tomsaz, "Structural Response to Economic Transformation," ***Communist Economies and Economic Transformation.*** Vol.6, no. 2, 1994, pp. 231-246.

Mickiewicz, Tomsaz, "The State Sector during Transformation: Employment, Wages and Investment", ***Communist Economies and Economic Transformation,*** Vol.29, no.4, 1996, pp. 467-478.

Murell, P., "What is Shock-Therapy? What did it do in Poland and Russia?", ***Post-Soviet Affairs,*** Vol. 9, no. 2, 1993, pp. 111-140.

Murrel, P., "Evolutionary and Radical Approaches to Economic Reform," ***Economics of Planning,*** 25, 1992, pp. 79-95.

Murrel, P., "The Transition According to Cambridge, Mass", ***Journal of Economic Literature,*** Vol.XXXIII, 1995, pp. 164-178.

Murrel, Peter, "Can Neo-Classical Economics Underpin the Reform of Centrally Planned Economies?" ***Journal of Economic Perspectives,*** Vol. 5, no. 4, Fall 1991, pp. 59-76.

Nelson, Richard, "Capitalism as an Engine of Progress" ***Research Policy,*** 1990, pp. 193-214.

Nelson, Richard, and S.G Winter, "Evolutionary Theorizing in Economics", ***Journal of Economic Perspectives,*** Vol.16, no. 2, 2002, pp. 23-46.

Ovin, Rasto, "The Nature of Institutional Change", ***Post-Communist Economies,*** Vol. 13, no. 2, June 2001, pp. 133-146.

Ovin, Rasto, "Why Institution Change Should be Rapid: A Transaction Cost Perspective," ***Communist Economies and Economic Transformation,*** Vol.10, no.1, 1998, pp. 63-80.

Patnaik, Ajay, "Central Asia since Soviet Disintegration", ***World Focus,***Vol.21, no. 8, 2000, pp. 3-6.

Pleskovic, B., "Financial Policies in Socialist Countries in Transition", ***Communist Economies and Economic Transformation,*** Vol. 7, no.1, 1995, pp. 117-128.

Plyshevskii, B., "Reforming the Economies of C.I.S.: Uzbekistan", ***Problems of Economics of Transition,*** Vol.39, no.9, 1995, pp. 84-95.

Pomfret, Richard "Agrarian Reforms in Uzbekistan: Why has the Chinese Model Failed to deliver?" ***Economic Development And Cultural Change,*** Vol.48, no.2, January 2000, pp. 269-294.

Pomfret, Richard, "The: Uzbek Model of Economic Development 1991-1999", ***The Economics of Transition,*** Vol.8 (3), 2000, pp. 733-748.

Poznanski, Kazimierz, "An Interpretation of Communist Decay: The Role of Evolutionary Mechanisms," ***Communist and Post Communist Studies,*** Vol. 26, no. 1, March 1993, pp. 3-24.

Roland, Gregord, "The Political Economy of Transition", ***Journal of Economic Perspectives,*** Vol.16, no.1, Winter 2002, pp. 29-50.

Rosenberg. B.C and Zeeuw, M.D., "Welfare Effects of Uzbekistan's Foreign Exchange Regime," ***IMF Staff Papers,*** Vol. 48, no.1, 2001, pp.160-178.

Sachdeva, Gulshan, "Economic Transformation in Central Asia", *International Studies,* Vol. 34, no.3, 1997, pp. 313-328.

Shliefer, A., Murphy, K., and Vishny, R., "The Transition to a Market Economy: Pitfalls of a partial Reform", ***Quarterly Journal of Economics,*** Vol. CVII, 1992, pp. 889-906.

Stiglitz, J.E., "Whither Reform? Ten Years of the Transition Keynote Address", ***Annual World Bank Conference on Development Economics 1999,*** 2000, pp. 27-54.

Stiglitz, Joseph E., "The Causes and Consequences of the Dependence of Quality on Price", ***Journal of Economic Literature,*** Vol.25, 1987, pp. 1-48.

Tarr, David G., "The Terms of Trade Effects of Moving to World Prices on Countries of the Former Soviet Union," ***Journal of comparative Economics,*** Vol. 18, Feb. 1994, pp. 1-24.

Temkin, Gabriel, "Information and Motivation: Reflections on Failure of Socialist Economic System", ***Communist and Post-Communist Studies,*** Vol.29, no.1, 1996, pp. 25-41.

Winiecki, Jan "An Inquiry Into the Early Drastic Fall of Output", ***Post-Communist Economies,*** Vol. 14, no. 1, March 2002, pp. 5-30.

Wyplosz, Charles, "Macroeconomic Lessons from Ten Year of Transition", ***Annual World Bank Conference on Development Economics 1999***, 2000, pp. 317-343.

Zhang, B., "Institutional Aspect of Reform and the Democratization of Communist Regimes", ***Communist and Post-Communist Studies,*** Vol.26, no. 2, June 1993, pp. 165-181.