



Uzbekistan 20 Years After

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1. The theoretical approaches and alternative methods to study systemic transformation.

2. “Uzbek Puzzle”

- The analysis of a new empirical data for 20 years + with emphasis on the 2nd decade of transition in Uzbekistan.
- The existing problems such as:
 - double digit inflation,
 - multiple exchange rate,
 - business and investment environment.

3. Conclusions.

1. The theoretical approaches

- The systemic transformation, in fact, appeared to be a much more complex and lengthy than initially expected.
- It is difficult to agree with the dominating explanations proposed by the “mainstream” policy researchers.
- Transformation problems are heavier in the countries that have failed to implement properly recommended policies.
- [Sachs and Woo (1994), Balcerovicz (1995), Aslund (1995, 2001), Havrylyshin, Wolf et al., (2000) and others].

1. The theoretical approaches

Summarizing the experience of the first decade of transition

J. Stiglitz [(1999), p.1] noted that:

- “failures of the reforms in Russia and majority of CIS countries were not just due to sound policies that had been poorly implemented.
- It occurred because of a misunderstanding of both the foundations of a market economy and the basics of an institutional reform process.
- The limited success in so many of the countries in transition also meant that they remain many opportunities for applying better policies”.

1. The theoretical approaches

- The criticism was taken into certain account.
- Following the World Bank the EBRD in its Transition Report (1999) published in the same year
- with institutional viewpoint explanations (“institutions and behaviour”, “social capital”) .
- However, they were used to strengthen the above-mentioned conclusions of “mainstream” economists,
- rather than to develop further ideas about the “roots of failure” in order to find and apply “better policies.”

1. The theoretical approaches

The author suggested **alternative approach**:

- Macro-economic stabilization, structural adjustment policies and institutional building are necessary, but not sufficient.
- In order to make them efficient each state, needs to find proper speed and sequence of reforms, and implement them properly.
- It is necessary based on thorough examination of their initial conditions and long-term goals to formulate tailor made strategy for each state.
- [B. Islamov (1998), (1999), (2000), (2001)].

1. The theoretical approaches

- Methodologically this position was backed up by the original study of **transformational ‘traps’**
- They emerge when transition is based neither on a certain level and character of political, economic and social institutions
- nor on the readiness of a state and people to make appropriate use of new opportunities.
- In the case of systemic transformation, the chosen strategy and policies, recommended and implemented, in majority of the CIS countries appeared to be fraught with completely different implications and consequences.

1. The theoretical approaches

- All countries in transition at the initial stage, though to different extents and forms, faced **transition traps**:
 - high or hyper- inflation and a huge fiscal deficit;
transformational recession and de-industrialization;
rapidly growing poverty and income disparity.

They were hurt, in addition, due to the fast disruption of the existing state system regulating foreign economic relations, by **globalization traps**:

 - immensely increased vulnerabilities to external trade and financial shocks,
 - chronic current account deficit, capital flight and foreign debt too.

1. The theoretical approaches

- The transition and globalization traps -two main components of **systemic transformation traps**
- were larger in the states in which the **dichotomy** between initial conditions and policies implemented was bigger.
- However, despite variations in the combination, in different countries, the most disappointing result is that no economy in transition was able to avoid them.
- The **degree of negative effect of traps** could be judged by the depth and length of output and income decline.

1. The theoretical approaches

- It has obtained the most full-fledged forms in countries, which introduced the most radical forms of “shock therapy” with much less prior experience of market reforms:
- Russia and the majority of other NIS as well as in less developed CEE countries).
- Based on the comparative analysis professor Y. Nishimura (2000), proved the fact that reforms in Russia were much more radical, than not only in Hungary but Poland as well.
- “the transition had a longer history, the policies for liberalization and macro-economic stabilization implemented more gradually.”

1. The theoretical approaches

- In the second decade of systemic transformation set of institutions were suggested by different economists.
- Prof. I. Iwasaki at that time applied institutional approach Russia-CA economic relations (1999).
- Khan (2002), Bardhan (2005) to economic growth and sustainable human development
- However, model institutions were taken by “mainstream” economists from the developed market economies and again were not properly adjusted to individual conditions of countries in transition.
- The issue, therefore, was in political feasibility of the recommended institutional building policies [Qian (2003)].

1. The theoretical approaches

- Later the problem of governance has been becoming in the focus of some other economists and political scientists.
- J. Ahrens (2007) warned that it should not be just transferred from the most developed countries.
- It is necessary to consider different initial conditions, economic structures and stages of development and to adjust policy proposals respectively.
- Moreover, the experience and strategies of reforms of some newly industrialized countries could suit better for such countries as CANIS [J. Ahrens and H. W. Hoen (2013)].

1. The theoretical approaches

- It is known, that “mainstream” monetarist approaches still dominates numerous policy circles, think tanks and experts of the IMF, World Bank, EBRD.
- From their viewpoint still “the output records of Uzbekistan ...present a challenge to the standard transition paradigm” [S. Fisher, R. Sahay (2000) p.18] or “puzzle”- Taube and Zettelmeyer, Zettelmeyer (1998).
- Although afterwards several other books has been published more about the “Uzbek model”, “ Uzbek paradox”, “Uzbek Path” by
- R. Pomfret (2000), (2006), G. Gleason (2003), M. Spechler (2004, 2008)] from slightly different positions.
- “Uzbek puzzle” has not been fully discovered yet.

1. The theoretical approaches

- Now the most recent EBRD Transition Report “Stuck in Transition?” has introduced a Kyrgyz “puzzle” (2013).
- The puzzles: 1. Why Uzbekistan (Turkmenistan) without introducing properly the recommended policies achieved such impressive economic growth.
2. Why Kyrgyzstan applying all recommendations stuck in transition and economic growth?
- To resolve the Central Asian states “puzzles” and understand better what was behind them in each case it is necessary to examine country by country,
- peculiar features of initial conditions, strategy and implementation of reforms and their impact on economic, social and external sectors.

1. The theoretical approaches

- The mix of factors, which really has provided the main failures and some successes in various countries in transition, was different.
- Despite a common cultural and historical background, including more than seven decades of Soviet legacy, as well as similar problems related to transition and integration into the world economy,
- 5 CAs had different abilities to cope with challenges.
- Subsequently, they have opted for different strategies.
- As a result, today among them, there are early and late starters, cases of outcomes of the 'shock therapy' approach and 'gradualism',
- as well as countries with minimal reforms implemented among all transitional states.

1. The theoretical approaches

- Central Asian countries, in addition to the problems common to the majority of transitional economies, have had the features of **developing countries**.
- Besides, almost from the outset they were hit by rapid **disintegration** of highly interdependent economy of FSU.
- The complex combination of development, disintegration, **transformation, and globalization** problems provide a basis on which to carry out a careful comparative analysis of the overall results of reforms and major contributors to the successes and failures within these decades in the CA and require tailor made policies to address them.
- So, from these positions the performance of CA states since independence is analyzed and compared [see more about this alternative approach B. Islamov (2001)].

1. The theoretical approaches

- The main evaluations and conclusions **differ** from those concepts that had been prevailing in the majority of publications inside and outside the region and advocated by pure proponents or opponents of the radical reforms.
- Twenty years of reforms in CANIS, though in many cases partial and incomplete with still **very fluent** and susceptible to sharp changes situations in all of them, is a long enough period to allow discussion of the main outcomes and to conduct comparative analysis.
- Special **emphasis is given to Uzbekistan** with its step-by-step reforms, that provides the best evidence for an alternative pattern and proves the arguments in favor of **state-led gradual socially oriented systemic transformation with active industrial policy.**

1. The theoretical approaches

- Following publication on November 20, 2013 of the latest Transition Report by the European Bank for Reconstruction and Development (EBRD), the University College London (UCL) School of Slavonic and East European Studies and the UCL European Institute
- organized a panel discussion involving prominent persons including R. Otunbaeva, G. Soros and others.
- Their statements gives, at least four interdependent ideas that are directly related to our topic:
- 1) continued stagnation of economic reforms in all transition countries;
- 2) correlation between their democratic and economic reforms;

1. The theoretical approaches

- 3) peoples' attitude even in more democratic states became anti market reforms after the recent global economic and financial crisis
- 4) as a result, “downgrades” in EBRD transition indicators, particularly in EU countries, as well as in the long-term growth forecast.
- One can also ask whether all these developments connected only with the fact that “reforms face significant political, social and human capital constraints” or there are some other reasons?

1. The theoretical approaches

- No one argues that political and economic reforms are inter-twined.
- However, correlation between them not always so strict and direct.
- Market reforms must be assessed not only by their own depth and maturity but, first of all, by their results.
- The main criteria are their economic and social outcomes. From this point of view, it is possible to explain not only stagnation in economic reforms and increasing negative public opinion against them, reinforced by the latest global financial crisis.

1. The theoretical approaches

- EBRD transition Report for 2013 admitted that Kyrgyz Republic “is currently rated 7 on the Polity 2 scale – at the same level as Georgia, and almost as high as the Czech Republic and Latvia.
- However, neither early reform efforts nor democracy have so far translated into good economic institutions. With respect to governance, in particular, Kyrgyz economic institutions have generally performed significantly worse than its political institutions scores would have predicted” [(2013), p. 56].
- In this sense recognition by EBRD of this fact very symbolic. The main theoretical conclusion of the report does work even in respect of Kyrgyzstan, not speaking about the rest of CANIS.

1. The theoretical approaches

- Of course, the empirical findings of the 2013 EBRD Transition Report will be under thorough further consideration of economists and political scientists.
- Another “puzzle” that is clearly seen in the case of CANIS from EBRD data on Polity 2 scale 2012 indices (political institutions, defined from -10 to +10, the latter denotes the highest score for democratization). The less Polity 2 score in Central Asian states (Turkmenistan - minus 9, Uzbekistan - minus 9, Kazakhstan - minus 6, Tajikistan - minus 3.) the better economic growth performance.
- This group with negative scores includes also Belarus - minus 7 and Azerbaijan - minus 7 that also confirms the reverse correlation with economic growth [EBRD (2013)].

1. The theoretical approaches

- In this sense, one cannot but agree with the idea that for most of today's transition countries including CANIS the straightforward trajectory of transition and market based democratic system is not feasible. It is not viable policy and strategy choice [J. Ahrens and H. W. Hoen (2013)].
- Meanwhile, it is very important to study relationship between market reforms and economic growth.
- If there is growing feelings against proposed forms of market reforms even in European countries in transition then it is necessary to look better at the strategy of reforms and
- find ways for transformation that are not at the expense of economic growth and sustainable development.

2. “Uzbek Puzzle”

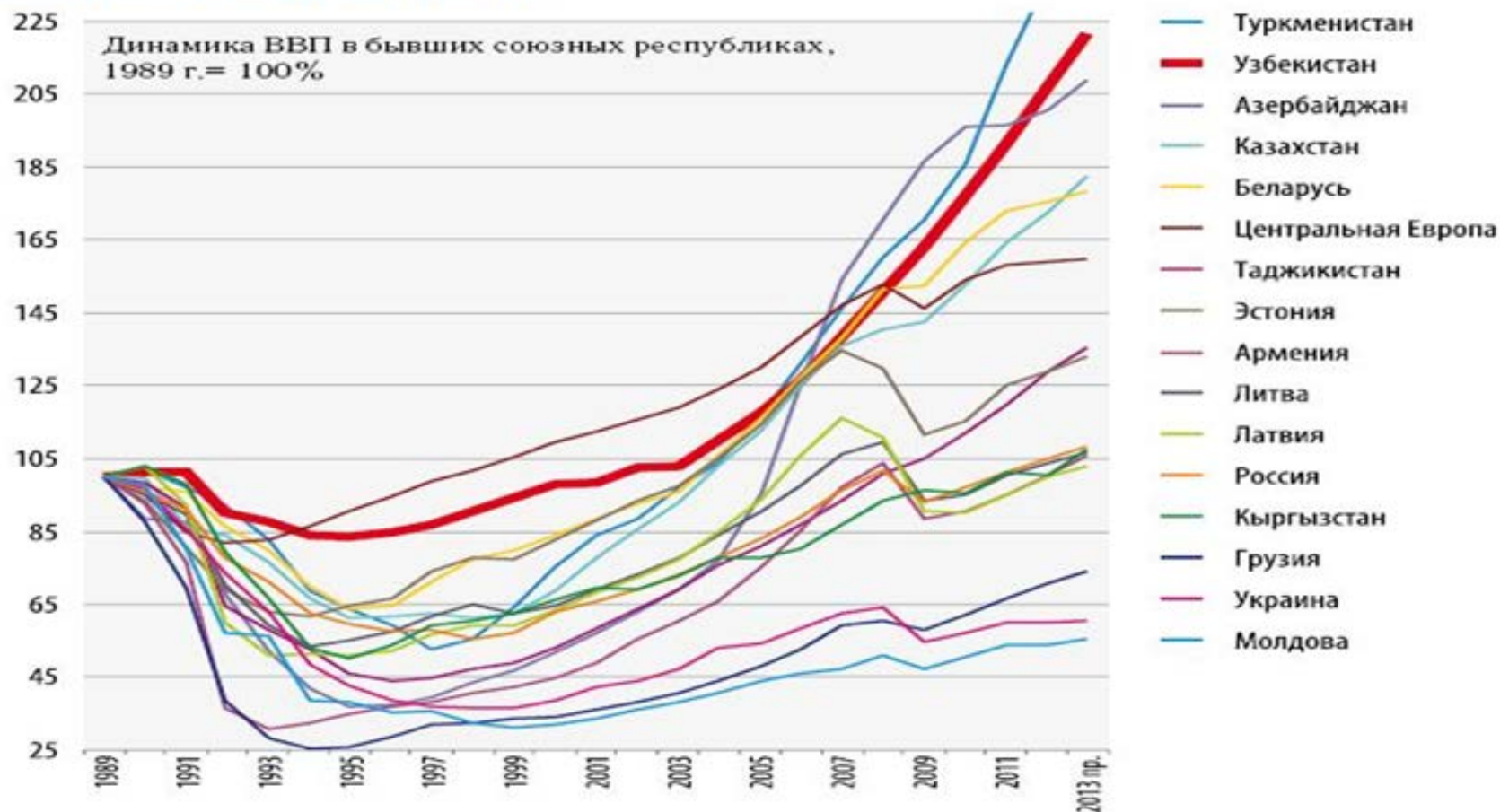
- This report relies on a close examination of statistics appearing in the official national and CIS statistics,
- as well as information published by the IMF, World Bank, OECD, EBRD, ADB and other independent sources.
- At the same time, contain new interpretations of data that have been so far considered in a different context, enabling the drawing of alternative conclusions and policy recommendations.
- In this respect, interesting and comprehensive picture could be seen from the Chart 1 with EBRD GDP data.
- It permits, for example, to identify who among newly independent states (NIS) are the best performers in terms of economic growth.

2. “Uzbek Puzzle”

- Why such countries as Turkmenistan, Uzbekistan, Azerbaijan, Kazakhstan and Belarus are among those who are better off than average Central and Eastern European, mostly EU, states in recent years.
- Why even Tajikistan, which is now after global financial crisis at the level of Estonia and outperforming other countries such as Kyrgyzstan that is considered in terms of democratic and market reforms more advanced than other Central Asians.
- Why economic growth in such “democratic” states as Georgia, Ukraine and Moldova, is much worse than even in Kyrgyzstan.

Chart 1. Dynamics of GDP in CIS countries, 1989-2013 (%)

Рисунок 1. Узбекистан лучше других стран СНГ преодолел последствия распада СССР и быстрее других добился высоких темпов экономического роста

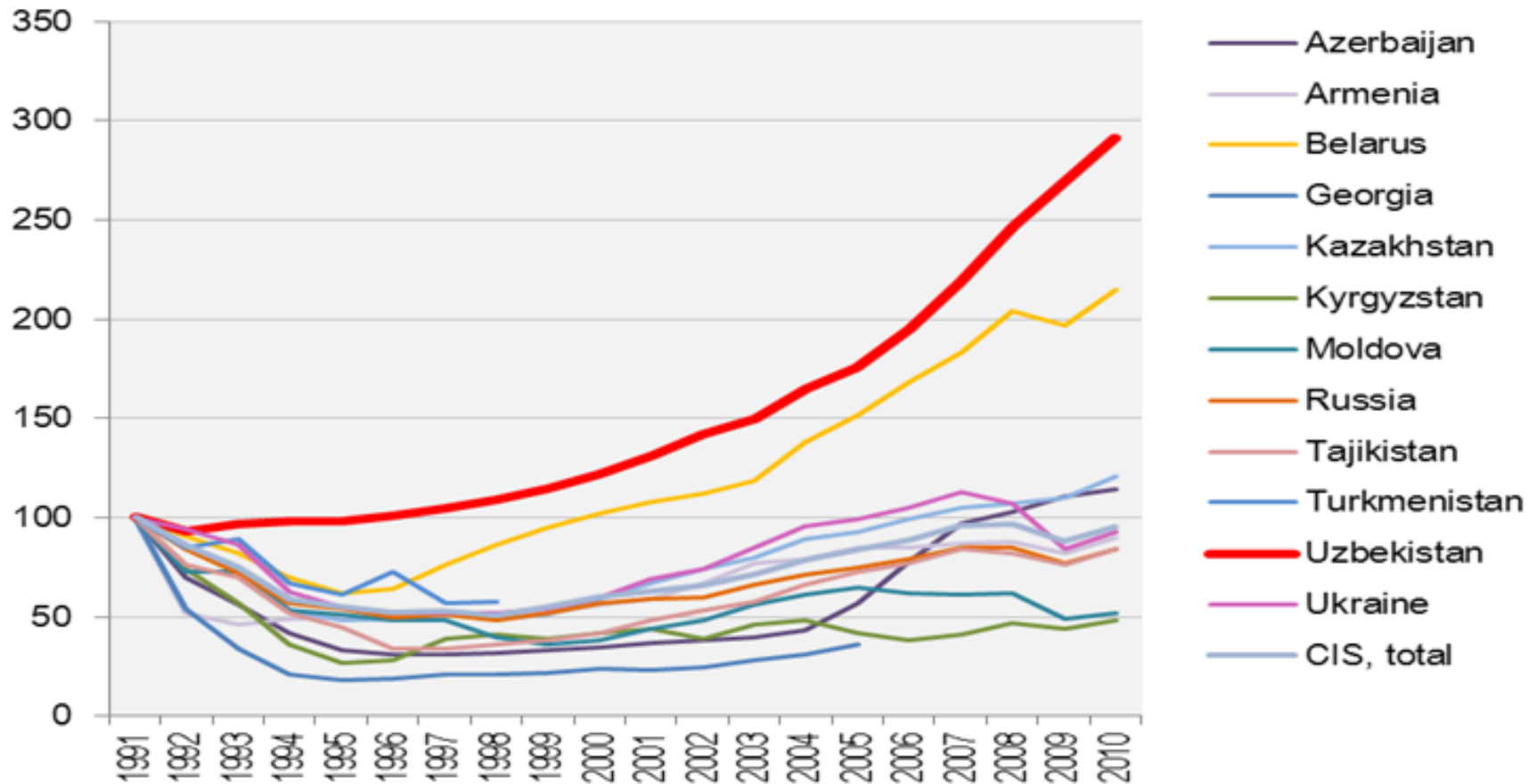


Источник: EBRD Transition Reports за разные годы

2. “Uzbek Puzzle”

- Firstly, Uzbekistan was the pioneer among all CIS countries that achieved pre-transition level of GDP and it has happened in ten years (2001). It was in the group of two leaders among all countries in transition who doubled its GDP in the second decade of transformation (Chart 1).
- Secondly, Uzbekistan was the least suffered with the fall of industrial output and de-industrialization and the first CIS country that achieved pre-transition level of industrial output (1996), doubled it (2007) and by now has tripled it (Chart 2).

Dynamics of Industrial Output in the Commonwealth of Independent States (CIS) in %, (1991=100%)



Source: 20 Years of the Commonwealth of Independent States, 1991-2010: Statistical abstracts/ Interstate Statistical Committee of the CIS – M., 2011, p.110, Commonwealth of Independent States in 2011: Statistical Yearbook/ Interstate Statistical Committee of the CIS – M., 2011, p. 31

Chart 3. Share of industrial output in GDP (as % of total)

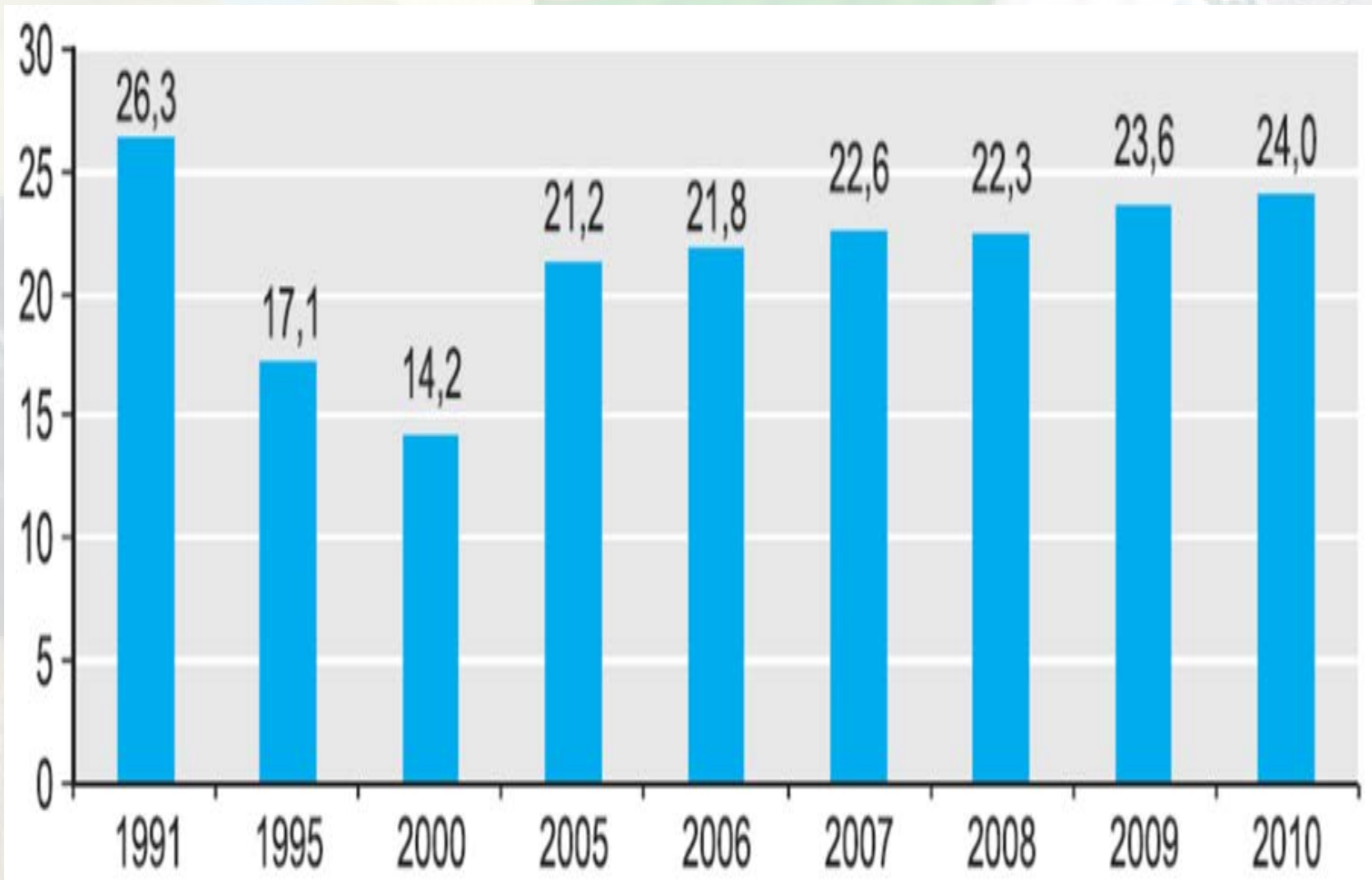


Chart 4. Share of industries in total industrial output (as %)



Chart 5. Production in mechanical engineering.

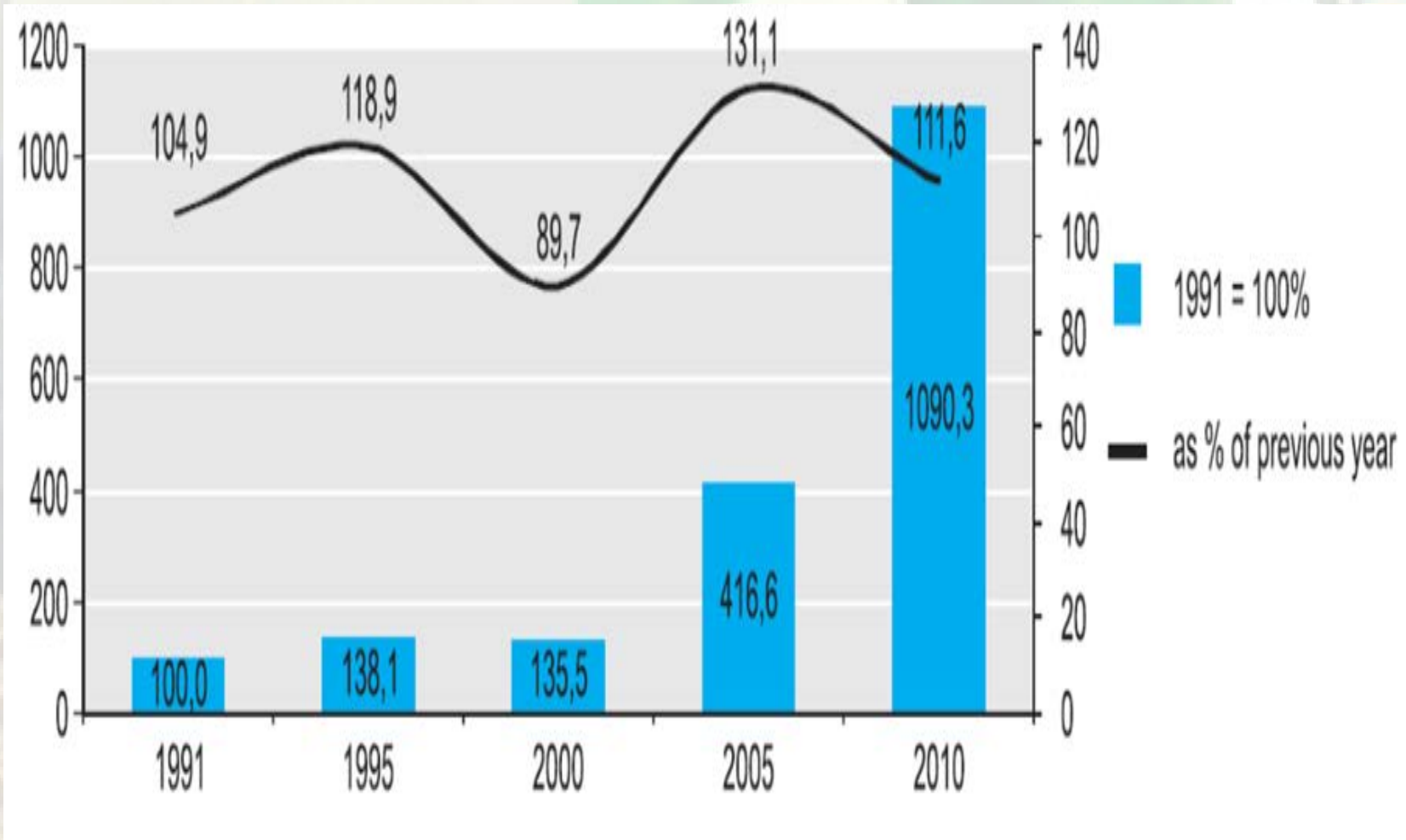


Chart 6. Production in fuel sector

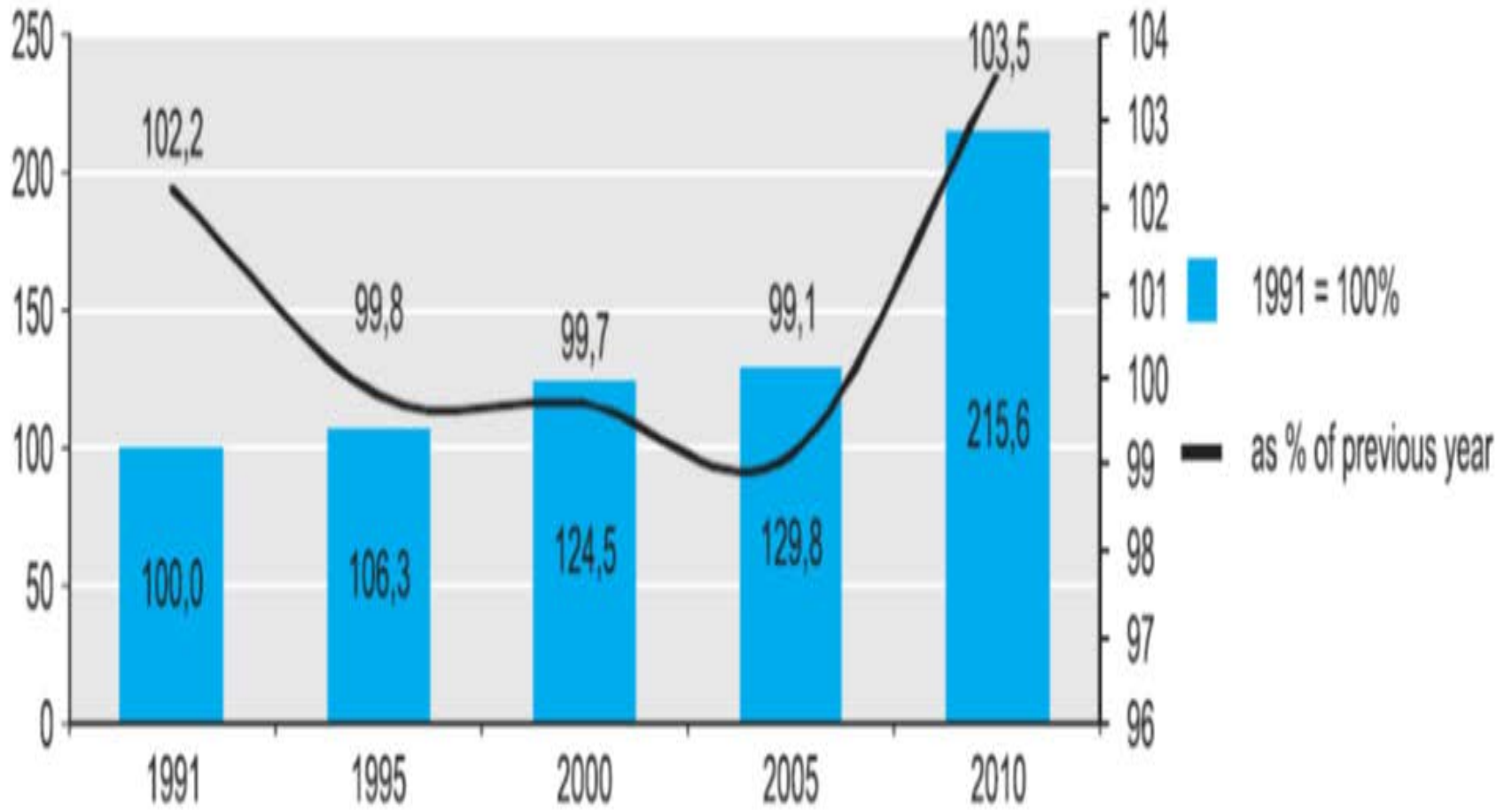


Chart 7. Share of agricultural products in export
(as % of total)

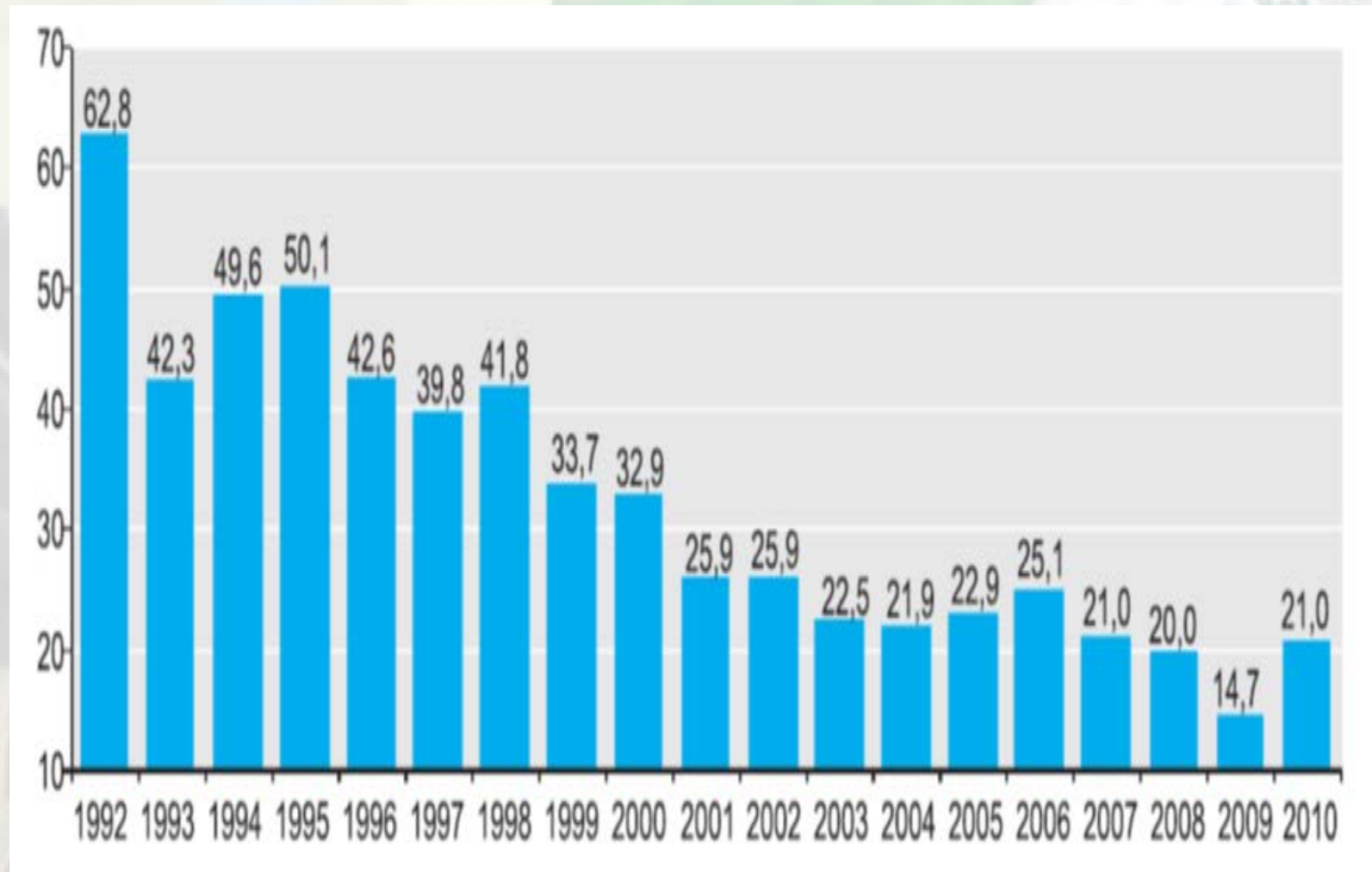


Chart 8. Dynamics of foreign trade, 1992-2011 (mln. USD)

Рисунок 5. Экспорт Узбекистана за 20 лет вырос в 6 раз. С 2002 года торговый баланс сводится с растущим профицитом



Источник: Госкомстат (<http://www.stat.uz/en/>)

Chart 9. Structure of export and import by commodities (as %)

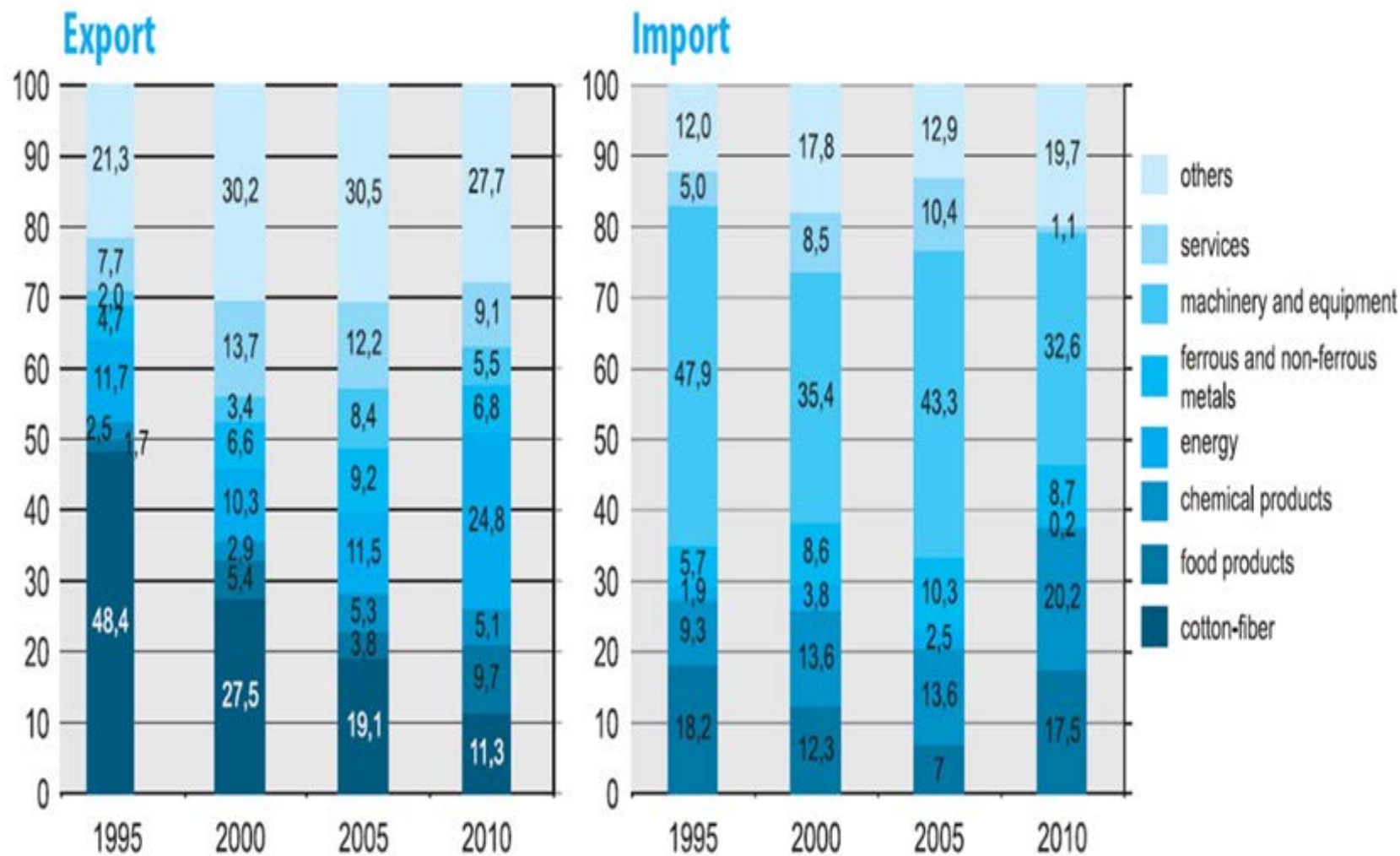


Chart 10. Share of selected countries in total export and import of Uzbekistan (as % of total)

	Export				Import			
	1995	2000	2005	2010	1995	2000	2005	2010
Russia	15,7	16,7	19,0	34,0	24,9	15,8	25,3	22,0
Ukraine	1,2	4,7	1,6	1,3	2,1	6,1	6	4,3
Kazakhstan	6,4	3,1	4,6	6,5	7,5	7,3	6,6	10,9
China	1	0,7	4,2	6,9	0,8	2,5	6,3	13,5
Turkey	2,9	3,0	6,4	5,5	3	3,3	4,3	2,7
USA	0,3	1,6	2,0	0,4	1,1	8,7	3,7	1,5
South Korea	3,9	3,3	1,0	1,2	14,9	9,8	12,5	16,6
Other countries	40,5	37,3	38,1	28,8	28,6	32,6	24,8	19,1

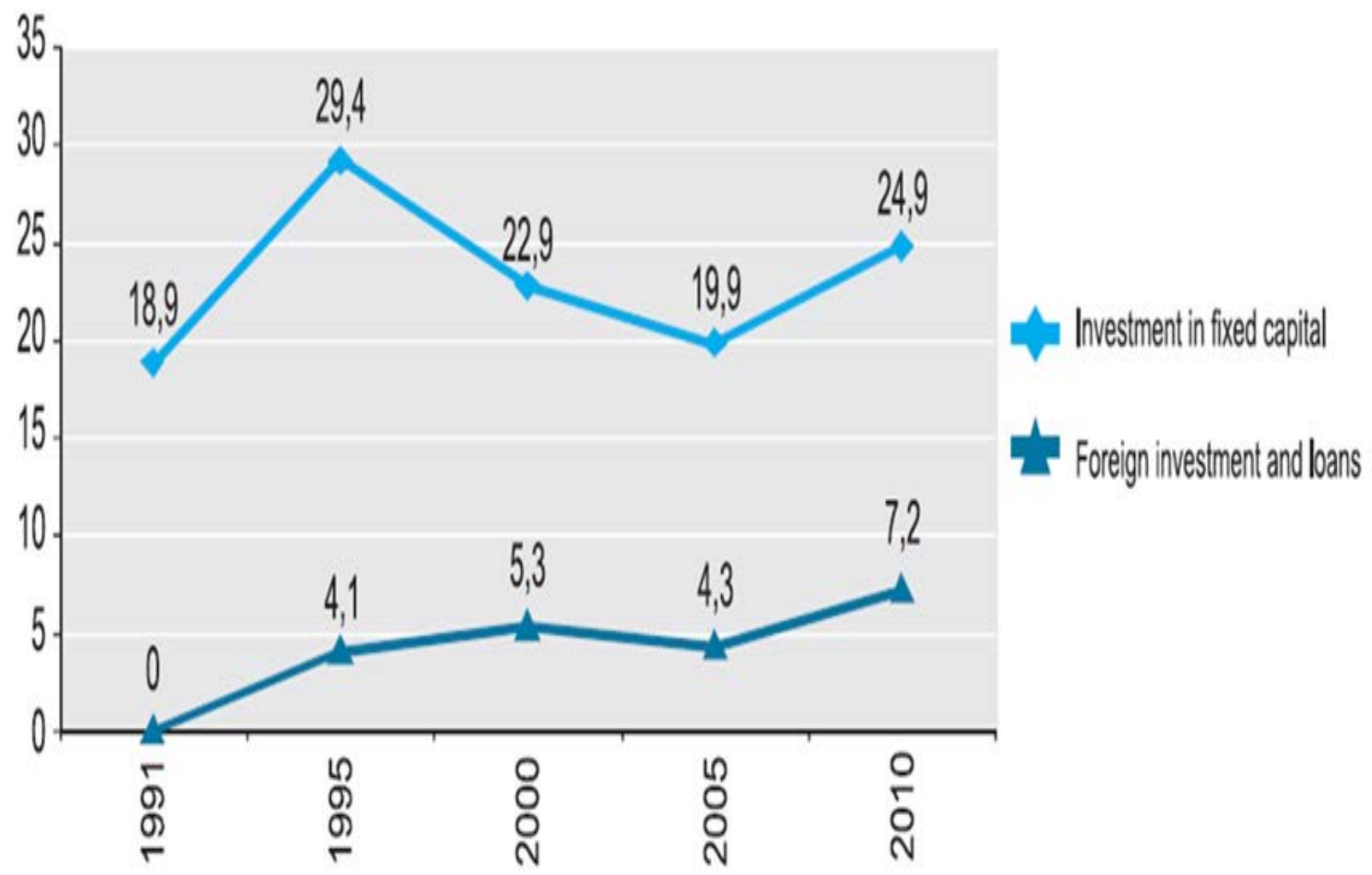


Chart 12. Money income and income differentiation (Gini coefficient)

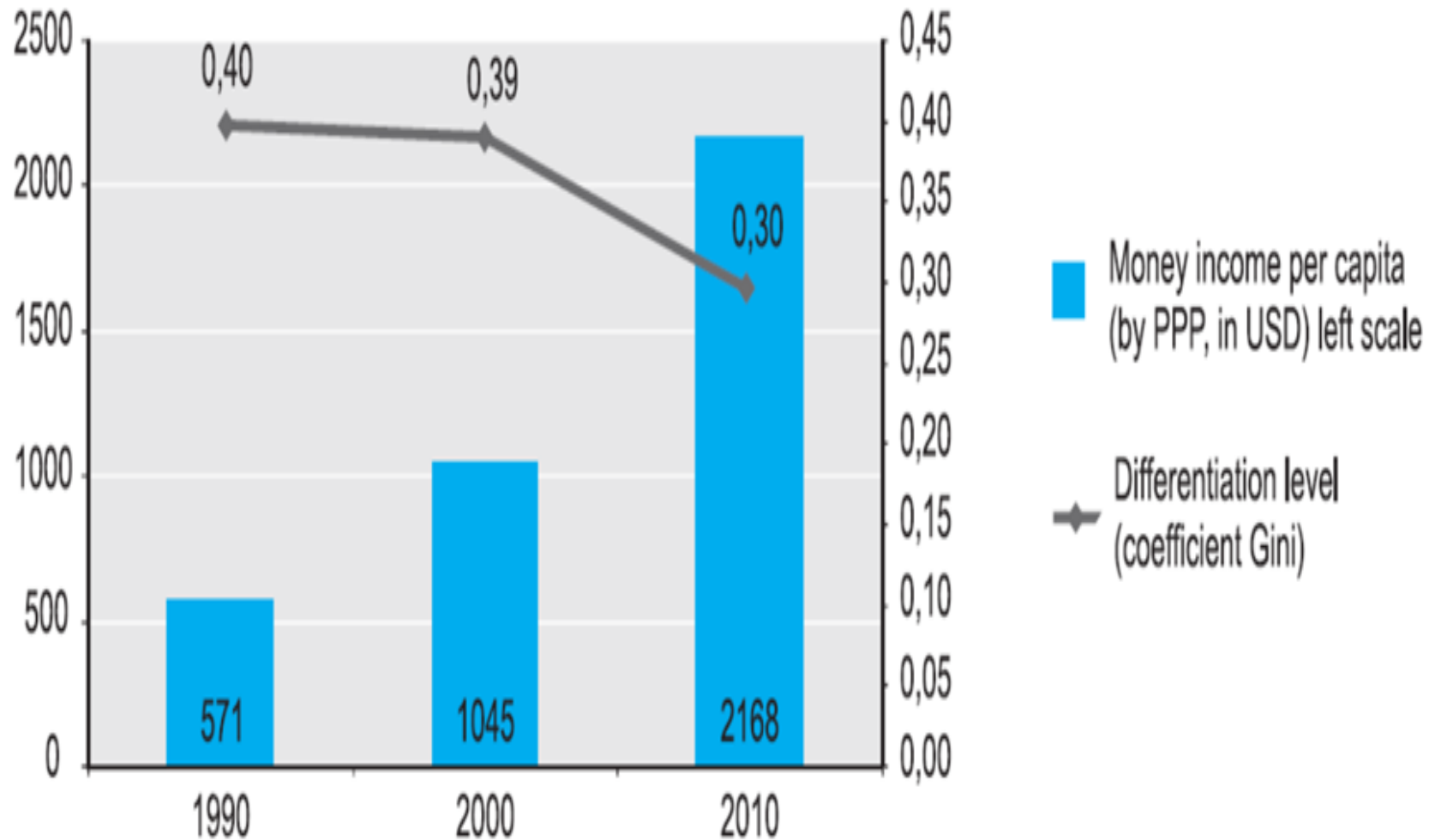


Chart 13. CPI, nominal interest rate on loans and deposits of population at commercial banks

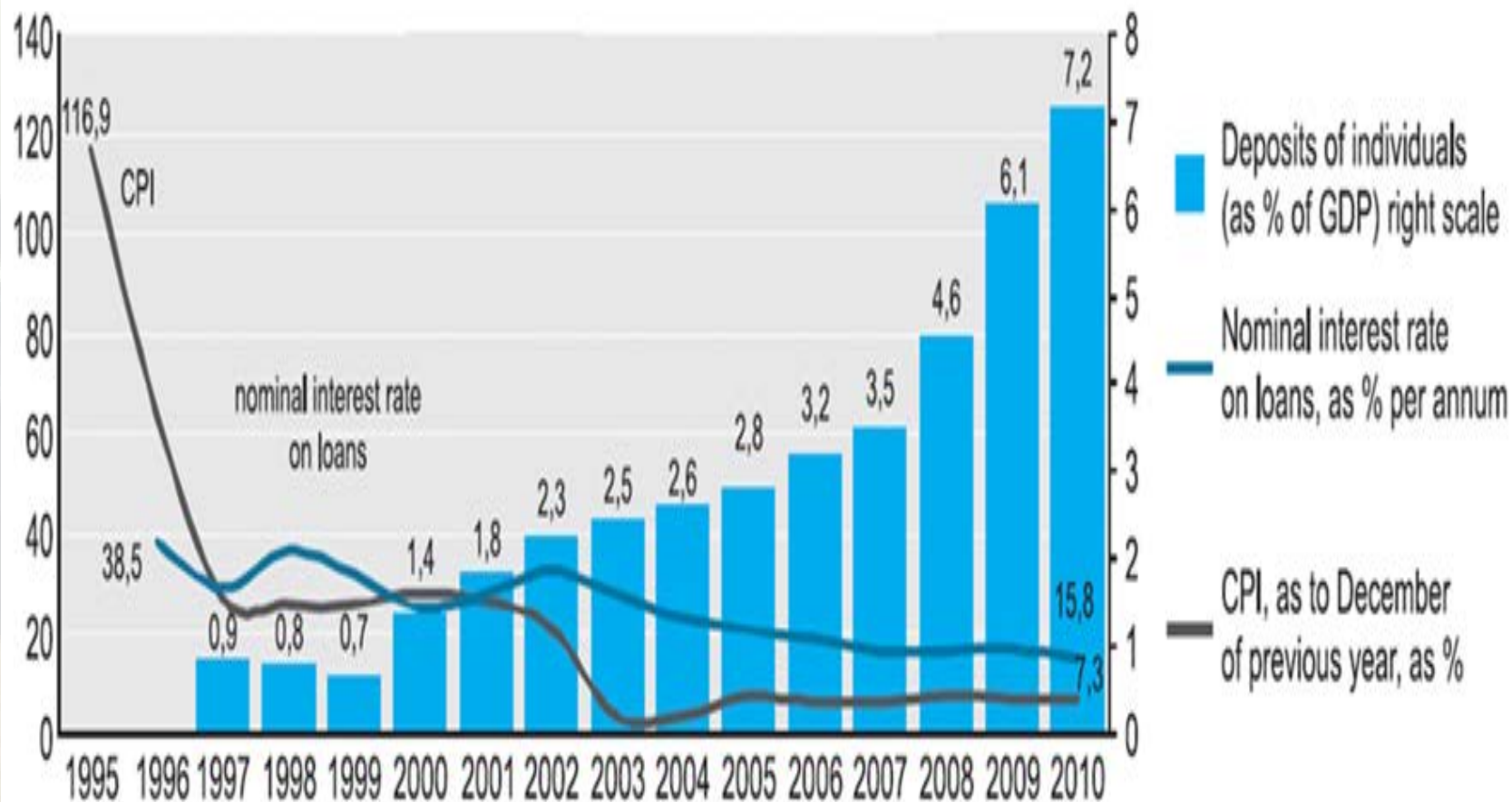


Chart 14. Growth in the number of small business entities and in the share of people employed by small business

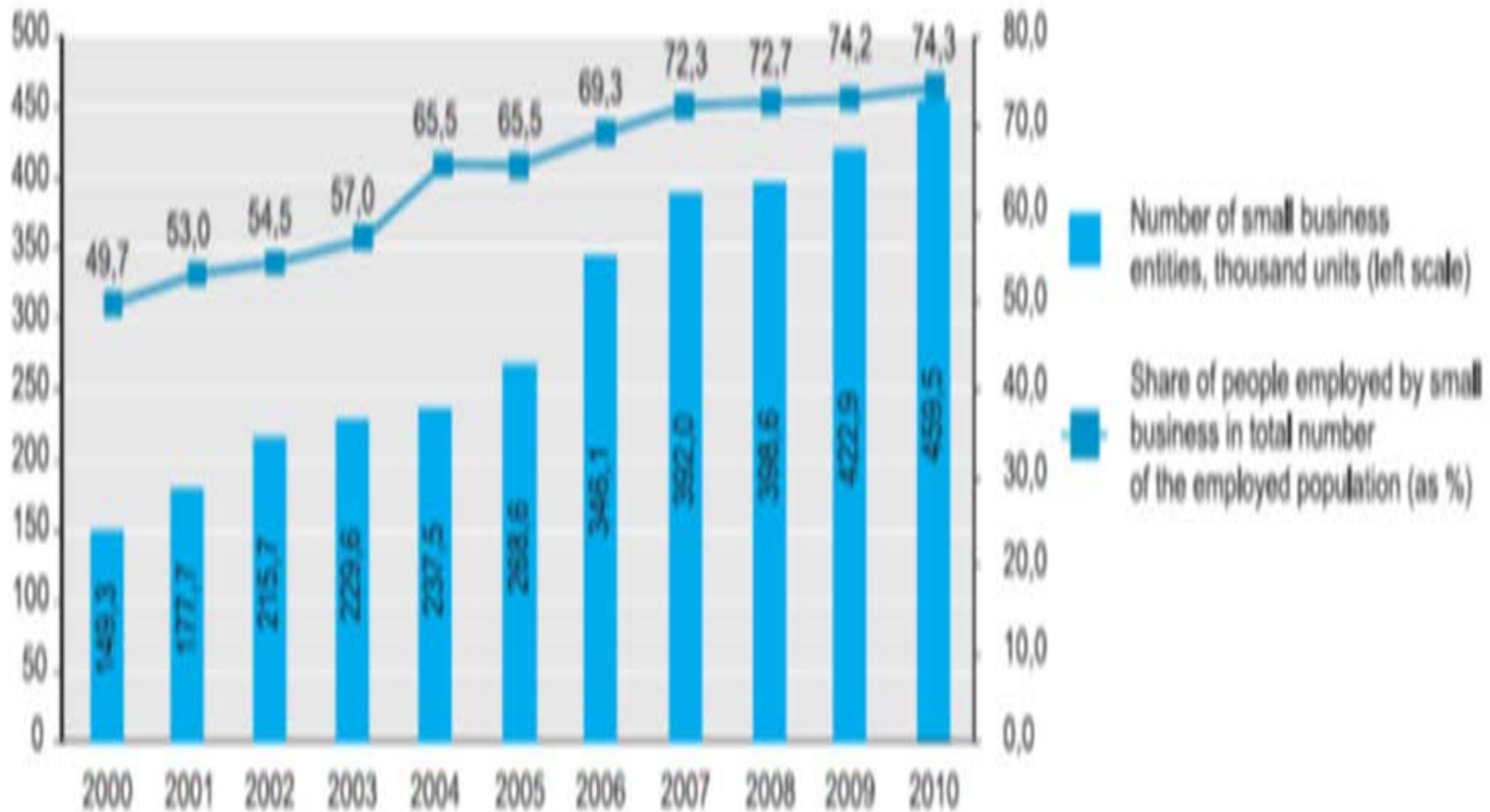
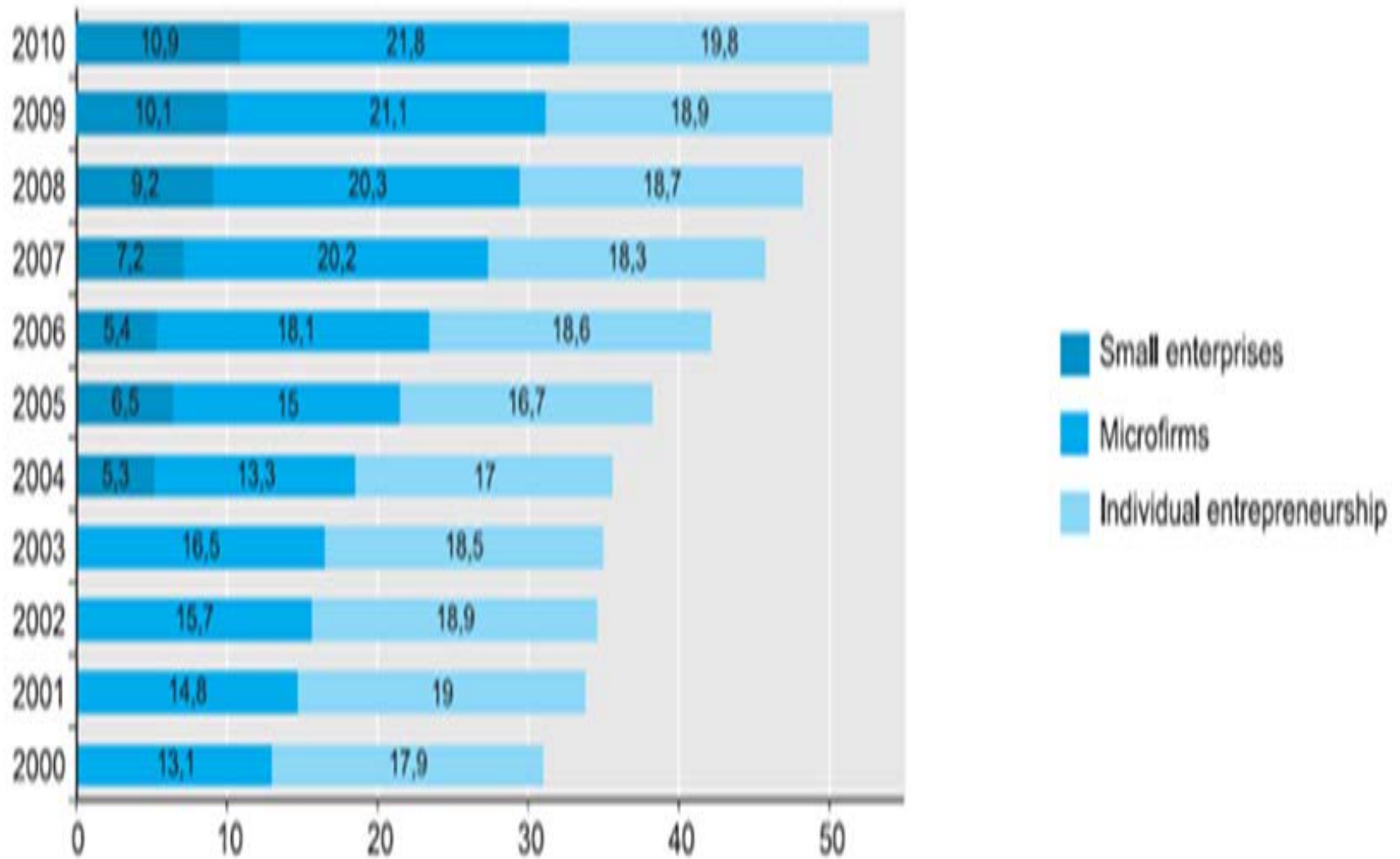


Chart 15. Share of small business in GDP (as %)



Conclusions

- Thus, from the analysis of 20 and more years of systemic transformation in CANIS with special focus on Uzbekistan the following main conclusions can be drawn:
 - 1) The market reforms have been undertaken not for the sake of reforms. They should not be considered as the goal (aim) but tools (means)
 - to achieve higher level of sustainable human development within the process of systemic change and formation of modern knowledge based mixed economy .

Conclusions

- 2) Transformation countries that could not achieve pre-transition level of GDP and industrial output within 20 years could not be considered as good reformers
- and vice-versa countries that are doubled or even tripled their production drastically improved their human development indices should not be criticized as slow reformers.
- If certain speed and sequence of reforms promote systemic transformation without worsening but improving social and economic indicators then this is the proper way for transition for this country.
- And vice versa if full-fledged political and economic reforms brings negative economic and social outcomes than it necessary adjust the policy recommendations and implement appropriate strategy. Not refer to constraints.

Conclusions

- 3) It is now clear each had to adjust general prescriptions of market reforms to their political, economic, social, demographic, ecological and other circumstances.
- The countries that have managed to do it properly show better results in economic and social development.
- 4) 20 years of systemic transformation and integration to the global economy experience witnesses that gradual step-by-step reforms suited better for most of them.
- It could be observed in all stages: cushioning shocks of systemic transformation and des-integration of the FSU at the beginning of 1990s,
- as well as negative impacts of regional (Asian -1997, Russian -1998) and global financial (2008-2009), Eurozone (2011-2012) crises
- recovering from them faster and providing sustainable economic growth and human development better.

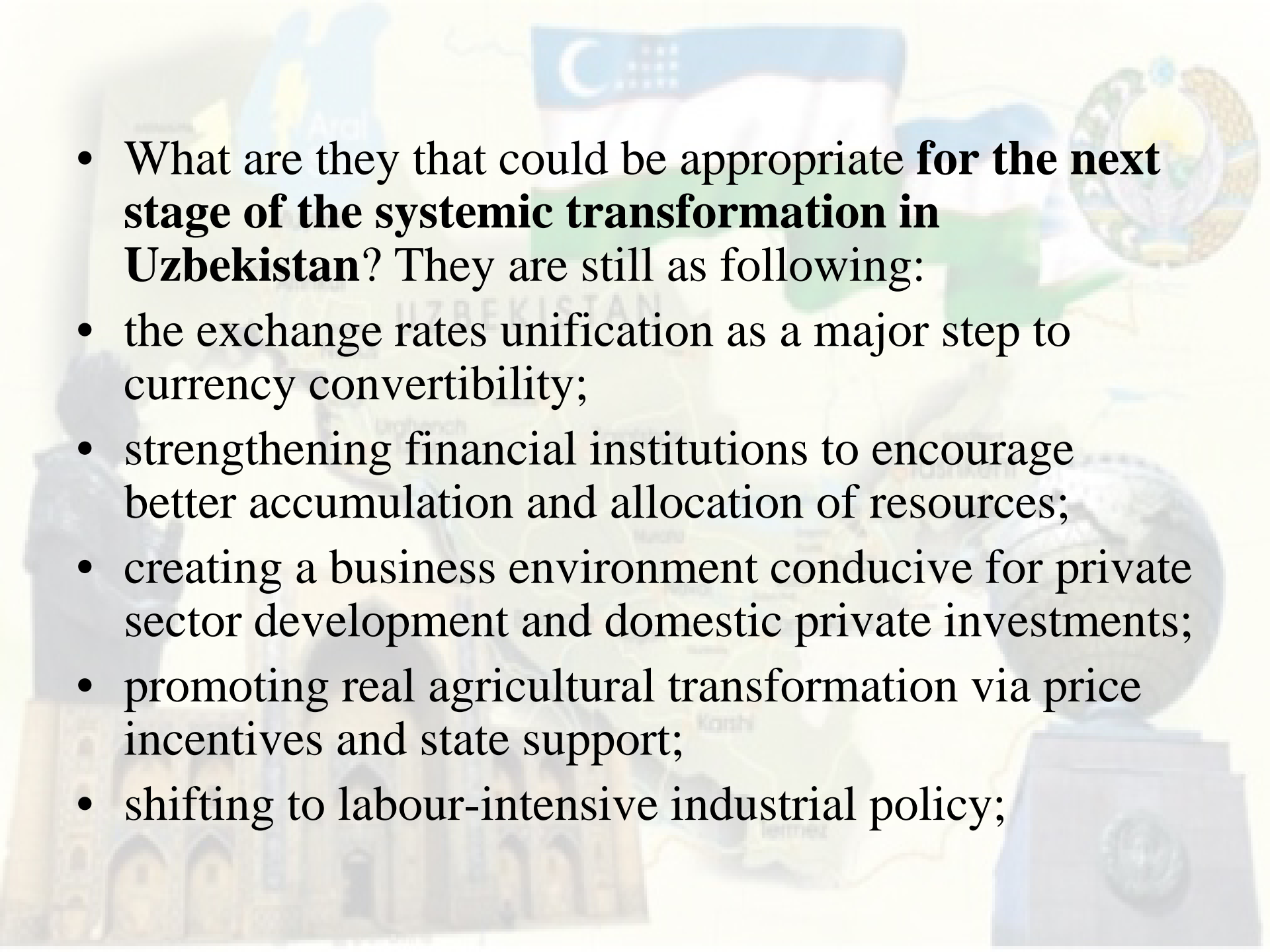
Conclusions

- 5) Of course, further reforms will be needed in all Central Asian states.
 - In this respect expertise of international financial organizations, highly developed states and newly industrialized, especially East Asian, countries could be very helpful.
 - The only thing these reforms should be tailor-made and suit to specific conditions of a country undertaken them, brings them benefits of positive economic growth and development. In this case they will not “face significant political, social and human capital constraints”.
- 6) Continued Eurozone crisis consequences could affect through depressed exports and financing inflows. Substantially lower commodity prices in the downside scenario could also cause a slowdown in Russia and other commodity exporters.
 - The weaker Russian economy would in turn seriously impact its non-commodity exporting neighbors [EBRD (2012)].

- **7. As for Uzbekistan**
- Vice-president of the WB Mr. Janamitra Devan participating in the international conference on small business and private entrepreneurship in (Tashkent, September 14, 2012) noted that “Uzbekistan had really achieved impressive results within the recent 21 years in social and economic development, demonstrating high level of growth even during global financial and economic crisis.”
- According to Vice-president of the ADB Mr. Shiao Jao: “Uzbekistan is the most dynamic economy of Central Asia which has had growth of the GDP per capita for 3 times within recent 7 years and aims to achieve upper level of middle income states by the year 2020.”
- To achieve this level it is necessary to substantiate a new generation of market reforms that are able to provide sustainable development based on enhancement of its international competitiveness.

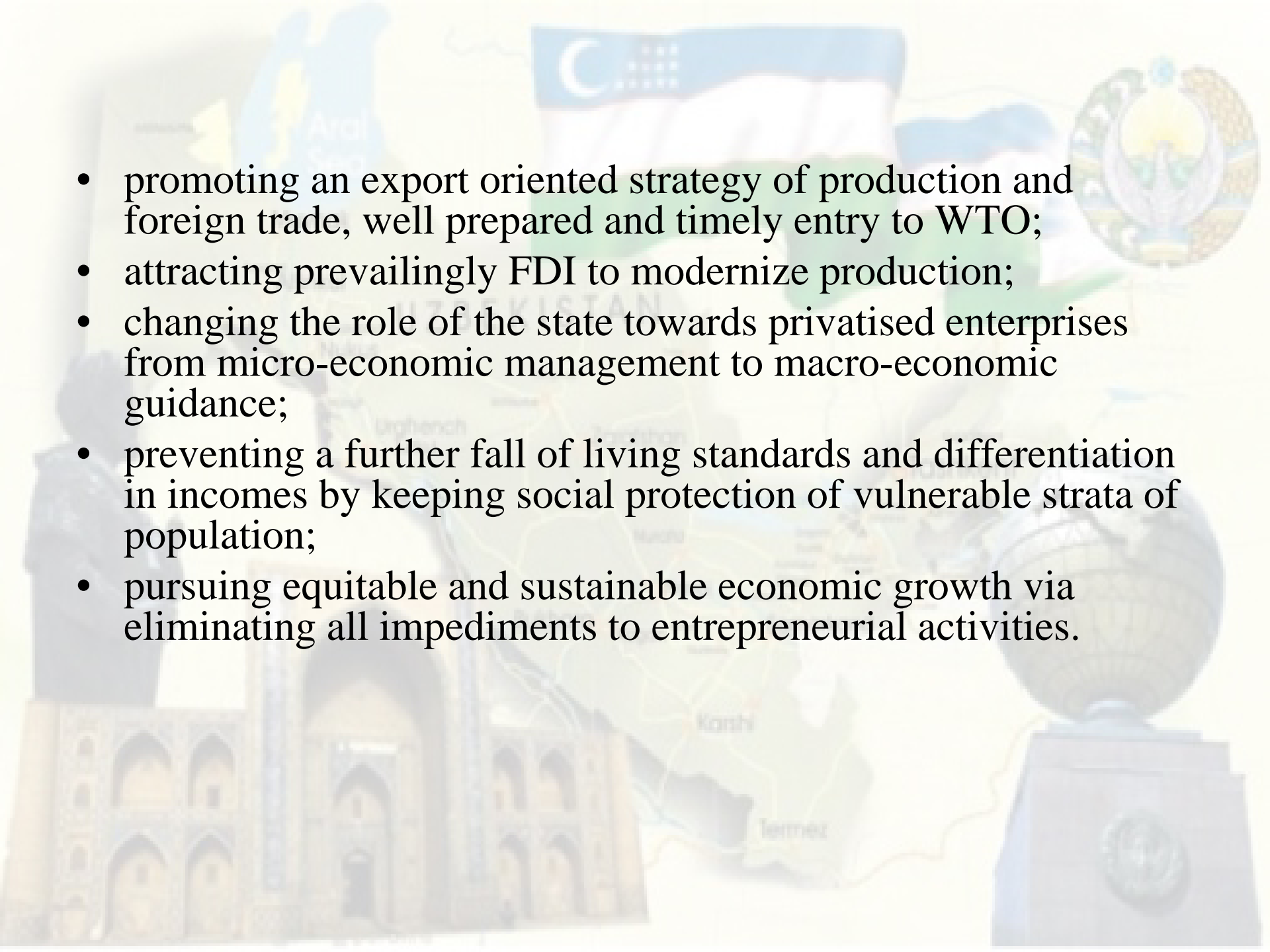
Conclusions

- Of course, high speed of economic growth needs to be backed up by further private sector development and structural reforms to sustain it in the nearest future when prices for exportable goods (gas, gold, copper and other non-ferrous metals) show sign for decrease.
- Under these conditions it is also necessary to choose proper steps related to foreign exchange policies and trade regimes.

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- What are they that could be appropriate **for the next stage of the systemic transformation in Uzbekistan**? They are still as following:
 - the exchange rates unification as a major step to currency convertibility;
 - strengthening financial institutions to encourage better accumulation and allocation of resources;
 - creating a business environment conducive for private sector development and domestic private investments;
 - promoting real agricultural transformation via price incentives and state support;
 - shifting to labour-intensive industrial policy;

- **The East Asian states** (notably started with Japan) provide certain lessons:
- The export-oriented strategy was one of the main components for the achievement of the high level competitiveness.
- The other elements of success are:
 - the harmonious government-business relations,
 - economic growth with equitable distribution,
 - transition to labour-intensive manufacturing, and then to more complex value-added industries, channelling resources into those areas and those groups of people that could provide long-term productivity growth and to move beyond the static comparative advantage industries,
 - proper use different “permissible” subsidies, balance of payments clauses, non-trade-related policy measures, well prepared entry to WTO with creative use of the new international trading rules and opportunities.

- 
- Rapid international competitiveness of the East Asian economies has become possible also due to the creation of the proper climate for foreign investments. which are considered not only as a source of foreign exchange, but as one of the main sources of production and promotion of increasing competitive exports on a new innovative technological basis. FDI were not limited only by primary industries, but by were directed primarily into manufacturing sector.
 - This experience of East Asian states gives insightful lessons for the country pursuing gradual state-led transformation with step by step opening up.

- 
- promoting an export oriented strategy of production and foreign trade, well prepared and timely entry to WTO;
 - attracting prevailing FDI to modernize production;
 - changing the role of the state towards privatised enterprises from micro-economic management to macro-economic guidance;
 - preventing a further fall of living standards and differentiation in incomes by keeping social protection of vulnerable strata of population;
 - pursuing equitable and sustainable economic growth via eliminating all impediments to entrepreneurial activities.

- **Thus**, the accomplishment of these tasks could facilitate the achievement of the main target for the next stage of transformation that is a significant increase of incomes on the basis of a new level of economic competitiveness.
- Strengthening the state, its quality of governance and efficiency its domestic and foreign trade policies remain the major instruments to accomplish these tasks.
- A favourable external environment (stability in international and regional financial markets, positive dynamics of terms of trade, improved **competitiveness** in traditional and global markets, attractiveness of the undertaken measures for domestic and foreign investors) is also important for the proper timing of such reforms.

Thank you for your kind attention!

