“Transition Strategies in Kazakhstan and Uzbekistan since Independence: Paradoxes and Prospects”

by

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Abstract

Central Asia has been the focus of the world community since the collapse of the Soviet Union. On the one hand, natural resources, including such commodities as crude oil, natural gas and uranium, make the region attractive to investment by both local and foreign investors. On the other, a thorny path towards democracy, and reports of human rights abuse make the region appealing to many countries for research. Once a part of the Soviet empire, the region nowadays is full of paradoxes. For example, the two regional heavyweights – Kazakhstan and Uzbekistan have chosen different development strategies which have led to interesting and ambiguous results.

After gaining independence Kazakhstan chose to open up its economy, whilst the Uzbek government concentrated on political stability and a fully coordinated economy. In the early 1990s the Uzbek strategy appeared to be more reasonable and less painful, as Kazakhstan suffered from severe economic degradation during this time, however by the turn of the century the Kazakh economy significantly outperformed that of their neighbours. Many analysts came to an early conclusion that the reason for the Kazakh economic boom was entirely based on oil prices and the discovery of new crude oil deposits in Western Kazakhstan. However, such conclusions were rather superficial and one-sided, since Uzbekistan also possessed large natural gas deposits (although not as large as those of Kazakhstan) but did not experience such an economic boom.

The aim of this paper is to analyse and compare the two different transition strategies chosen by Uzbekistan and Kazakhstan during their early independence and evaluate the prospects and implications of these strategies for coming years.

"We have gotten stuck half-way in our transition
from the planned and command economy
to a normal market economy.
We have created... a hybrid of the two systems."
Boris Yeltsin, Russian President (1991-1999)[1]

1. Introduction

More than 17 years ago the countries of Post-Soviet Central Asia gained their independence and turned their economies towards market economies. While 17 years might not be a serious period to reckon with for historians, it enables economists, political scientists and sociologists to base their analyses and predictions of the transition on some empirical material. Certainly, the information and signals received during this transition period could be interpreted differently, and therefore a reliable theoretical framework is necessary in order to avoid speculation and unsubstantiated claims. Thus, within the framework of this paper, analyses on gradual transition and shock therapy[2] will serve as a general backbone and tool for the comparison of Kazakhstan's and Uzbekistan's transition choices. Therefore, this paper will try to answer the following research questions:

1. What kind of transition strategy had been applied and to what extent did a market economy emerge in Kazakhstan and Uzbekistan?
2. Which country has done better in terms of transition towards a market economy and why?

From a distant view Central Asia may appear as a homogenous region, with similar scopes of development, political structures and ethnicity. Moreover, all the countries end with "stan" which psychologically adds to the conviction that Central Asian countries can be measured and judged with the same yardstick.[3] However, if one is to zoom into the region, one would inevitably notice that Central Asian countries vary significantly in the

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[1] Yeltsin's Annual Address to the Federal Assembly (March 30, 1999), see A. Åslund, "Why Has Russia's Economic Transformation Been So Arduous?", *World Bank Conference on Development Economics* (April 28-30, 1999), available online at http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=201, accessed on February 10, 2009

[2] G. Kolodko, From *Shock to Therapy: The Political Economy of Postsocialist Transformation* (Oxford: Oxford University Press, 2000)

[3] A. Åslund, "Sizing up the Central Asian Economies", *Journal of International Affairs* (56:2, 2003): 75

extent of their transition, natural resources and economic development. Furthermore, it would become obvious that the two regional *heavyweights* – Kazakhstan and Uzbekistan – have been following strikingly different paths of transition towards a market economy and yet are still competing for regional dominance. The scale of this competition has leaned towards either Kazakhstan or Uzbekistan at various stages of their transition – until 1996 Uzbekistan's performance was significantly better and more impressive than its neighbour's, however since 1999 Kazakhstan has significantly outperformed Uzbekistan in terms of economic development. This paper focuses on these two countries, analyses their development paths and conditions for transition.

2. Theoretical Framework or Institutions Matter

Differences in the pace of, and commitment to economic reforms attempt to distinguish between the so-called *shock therapy* and *gradualism* approaches. Havrylyshyn, however, claims that there are three different approaches: gradualism, the big-bang (shock therapy) and institutionalist view.[4] Balcerowicz,[5] Klaus[6], Sachs and Thye Woo[7] advocated the rapid implementation of any feasible changes in a transition country. Aghion and Blanchard,[8] Dewatripont and Roland[9] argued that a gradual approach would minimise disruptions and output losses. And, finally, institutionalists, such as Murrell,[10] Clague and Reuser[11] emphasised the need of rapid changes in liberalisation but well-weighed institutional change, since this process is time-consuming and should serve the purpose of becoming a backbone for all politico-economic reforms in a given country.

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[4] O. Havrylyshyn, *Divergent Paths in Post-Communist Transformation: Capitalism for All or Capitalism for the Few?* (New York: IMF and Palgrave Macmillan, 2006): 23

[5] L. Balcerowicz, "Economic Transition in Central and Eastern Europe: Comparisons and Lessons", *Second Annual IFC Lecture* (Washington: IFC/World Bank, 1993)

[6] V. Klaus, "The Ten Commandments of a Systematic Reform Revisited", *IFC Fourth Annual Lecture* (Washington: IFC/World Bank, 1995)

[7] J. Sachs and W. Thye Woo, "Structural Factors in the Economic Reforms of China, Eastern Europe, and the Former Soviet Union", *Economic Policy* (April, 1994)

[8] P. Aghion and O. Blanchard, "On the Speed of Transition in Central Europe", *National Bureau of Economic Research Macroeconomic Annual* in S. Ficher and J. Rotemberg, eds. (Cambridge: MIT Press, 1994)

[9] M. Dewatripont and G. Roland, "Economic Reform and Dynamic Political Constrains", *Review of Economic Studies* (59, 1992)

[10] P. Murrell, "How Far Has the Transition Progressed?", *Journal of Economic Perspectives* (10:2, 1996)

[11] C. Clague and E. Reuser, eds., *The Emergence of Market Economies in Eastern Europe* (Cambridge: Blackwell Publishers, 1992)

The underlying assumption of the shock therapy model was that unleashing prices would create incentives for the remaining elements of a market economy to follow. According to the shock therapy model, restructuring could not occur without a liberalised price system, there could be no liberalised price system without a convertible currency, no convertible currency without competition, and competition would not have been effective without restructuring.[12] Shock therapists claimed that maintaining distorted prices would result in an inefficient exploitation of natural resources, rent-seeking and corruption.[13] Such complementarities are easy to explain: without enterprise reform there is going to be no response to relative price changes, with distorted prices enterprise decisions are going to be far from optimal and, without a convertible currency prices cannot be fully liberalised since they are not going to match world market prices and are going to soar in vacuum.[14]

Opponents of shock therapy or gradualists argued that shock therapy was fraught with the risk of such dire consequences as economic instability, social inequality and unpredictability, since reforming the economy immediately would inevitably break the existing economic and social setup.[15] According to gradualists, "liberalisation should proceed in a sequence and at a pace that parallels the actual evolution of market institutions and processes".[16] This would include, among other things, the enforcement of financial contracts, accountability of managers of publicly-owned firms for results and performance remuneration and the emergence of "market-makers", such as wholesalers, bankers, and infrastructure and communication services.[17] Until these prerequisites were fulfilled, there would be "no need for the full scale privatisation of productive assets, freeing prices and incomes, introducing full scale convertibility and establishing stock and foreign exchanges".[18] In other words, gradualists were more prone to evolutionary rather than revolutionary methods. Therefore it is clear that gradualists preferred the wait-

[12] J. Marangos, "Was Shock Therapy Really a Shock?", *Journal of Economic Issues* (37:4, 2003): 943–67
[13] A. Akimov and B. Dollery, "Financial Policy in Transition Economies", *Problems of Economic Transition* (50:9, 2008): 14
[14] R. Pomfret, *Constructing a Market Economy: Diverse Paths from Central Planning in Asia and Europe* (Cheltenham: Edward Elgar, 2002): 1
[15] K. Hawtrey, "Financial Market Reform in Transition Economies", *Agenda* (3:2, 1996): 195-206
[16] A. Akimov and B. Dollery:14
[17] A. Akimov and B. Dollery and J. Elliot, "The Sequencing of Post-Communist Transition", *International Journal of Social Economics*, (22: 9–11, 1995): 55–79
[18] J. Kregel, E. Matzner and G. Grabher, *The Market Shock: An Agenda for the Economic Reconstruction of Central and Eastern Europe* (Ann Arbor: University of Michigan Press, 1992): 121-122

and-see approach in reforming the economy, while shock therapists were more in favour of immediate changes where it appeared to be rational and expedient.

In addition, it is important to note that there have been other scholars who did not support the idea of the “artificial” separation of the shock therapy and gradualism models.[19] Roland claimed that what is fast for one person/country could be slow for another person/country[20] and, in this regard, it could be assumed that every transition country has had its own transition experience and it is therefore difficult to cluster them together either under a flag of shock therapy or gradualism. Klaus, the President of the Czech Republic (and the Prime Minister at that time) agrees that gradualism and shock therapy is an artificial separation:

> Various measures have different time requirements e.g. price and foreign trade liberalisation can be done overnight, privatization takes years to be completed. Things have to be done whenever they can be done or at least to be prepared without any delay.[21]

Gaidar, the former Prime Minister of Russia, echoed Klaus in underlining the importance of moving towards the immediate hard-budget constraint but did not insist on immediate actions in other elements of reform. He emphasised that each element has its own time-dimension.[22] Thus, in his arguments he was close to Fischer and Gelb’s reforms phasing, according to which, each component of reform has its own time and speed. The major aspects of economic change encapsulate such elements as macroeconomic stabilisation, price and market liberalisation, liberalisation of trade and exchange system, privatisation of state-owned firms, establishing a competitive environment with easy market entry and exit, redefining the role of the state as the provider of macro stability, a stable legal framework and enforceable property rights.[23]

[19] For instance, refer to V. Popov, “Shock Therapy versus Gradualism: The End of the Debate (Explaining the Magnitude of Transformational Recession)”, *Comparative Economic Studies* (42:1, 2000), G. Roland and T. Verdier, “Transition and the Output Fall”, *Economics of Transition* (7:1, 1999) and others

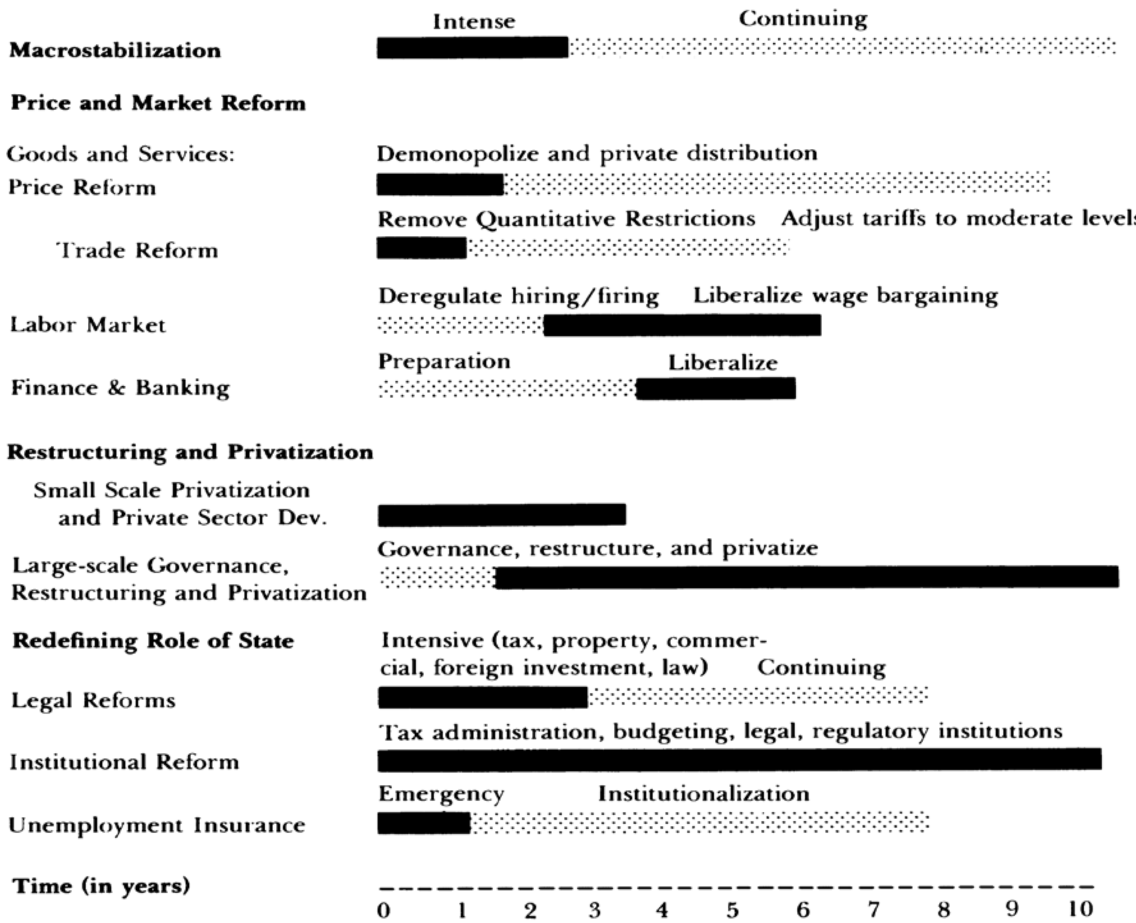
[20] G. Roland, “The Political Economy of Transition”, *Journal of Economic Perspectives* (16:1, 2002)

[21] O. Havrylyshyn, *Divergent Paths in Post-Communist Transformation: Capitalism for All or Capitalism for the Few?*: 19

[22] O. Havrylyshyn

[23] Ibid: 20

Table 1: Phasing of reform[24]



According to this table, the immediate or shock approach to institutions is not required, except in the case of macrostabilisation, legal reforms and price liberalisation, but not when price liberalisation concerns major consumer goods (such as bread and milk, for example), since it may result in social tension and public resentment. Fischer and Gelb argued that immediate macrostabilisation is required in order to reduce budget and trade deficits, however they admitted that the economic rigidities of post-socialist markets would hinder rapid implementation of this model due to narrow markets and more costly process in terms of output. Instantaneous price liberalisation would ensure the credible hardening of budget constraints and cessation of public subsidies to loss-making companies; until prices are rational, profits and losses are not reliable indicators

[24] S. Fischer and A. Gelb, "The Process of Socialist Economic Transformation", *Journal of Economic Perspectives* (5:4, 1991): 102

of efficiency and, therefore, cannot serve as a basis for decisions around which companies should be closed and which should expand.[25] To make the prices rational, the economy should be exposed to foreign trade, where local producers would be forced to compete with international producers without any protection and as a result would have to cope with the world prices regulated by the market. And finally, immediate implementation of the legal norms would create the framework to operate within.[26]

International organisations such as the IMF, WB and EBRD had their own recommendations for successful and, seemingly, trouble-free transition in the early 1990s (they readjusted their recommendations for transition countries at a later stage); however, what they often overlooked was the local environment and its constituents. What worked perfectly fine in one former socialist republic would not necessarily work in another. In other words, the ways in which Hungary and Estonia succeeded in their transition may not suit the countries of Kazakhstan and Uzbekistan. Thus, as numerous cases have demonstrated there is no one-size-fits-all approach in terms of successful transition.[27] As North rightly noted:

> Institutions and the way they evolve shape economic performance. Institutions affect economic performance by determining (together with the technology employed) the cost of transacting and producing. They are composed of formal rules, of informal constraints and of their enforcement characteristics; while formal rules can be changed overnight by the polity, informal constraints change very slowly. Both are ultimately shaped by the subjective perceptions people possess to explain the world around them which in turn determine explicit choices of formal rules and evolving informal constraints. Institutions differ from organizations. The former are the rules of the game; the latter are groups of individuals bound together by a common objective function.[28]

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[25] S. Fischer and A. Gelb: 96
[26] Ibid
[27] For instance, refer to D. Rodrik, *One Economics Many Recipes* (New Jersey: Princeton University Press, 2007): 166-167
[28] D. North, "The Contribution of the New Institutional Economics to an Understanding of the Transition Problem", *WIDER Annual Lectures* (Helsinki: UNU/WIDER, 03/1997) and P.O. Pineau, "Productivity to Reduce Poverty: Study of a Micro Level Institution in Peru", *International Productivity Monitor* (9, 2004): 64

In the 1980s reformers were convinced that any transition should be based on three pillars: macroeconomic stabilisation, privatisation and price liberalisation. In the 1990s it became evident that these pillars do not ensure smooth transition in developing countries, since the existing system of property rights did not match privatisation reforms, authorities were corrupted and added little to stir up competition, social and political institutions exerted risk on investment and, the rule of law and transparency were almost absent.[29] Thus, the necessity of adequate institutions covering all market-supporting institutions became apparent. In this regard, Rodrik proposed the following institutions:

- Property Rights
- Regulatory Institutions
- Institutions for Macroeconomic Stabilisation
- Institutions for Social Insurance
- Institutions of Conflict Management[30]

2.1 Property Rights

Almost all prosperous economies have been built on the basis of private property. The reason for this is that entrepreneurs would not have an incentive to produce and innovate unless they have adequate control over their assets and returns.[31]

2.2 Regulatory Institutions

Markets may collapse for many reasons. For example, when the actors get engaged in anticompetitive behaviour, or when incomplete or imperfect information distorts selection. Therefore, a multitude of regulatory institutions is imperative, regulating activities in goods, services, labour, assets and financial markets.[32]

[29] D. Rodrik: 153
[30] Ibid
[31] D. Rodrik: 156-157
[32] Ibid: 157-158

2.3 Institutions for Macroeconomic Stabilisation

Fiscal and monetary institutions are required to perform stabilising functions, since macroeconomic instability results in instability of financial markets which has a direct effect on the domestic economy. In this regard, an independent central bank should step up as a guard against banking crises.[33]

2.4 Institutions for Social Insurance

Social insurance legitimises a market economy by providing it with social stability and security; it makes risks manageable and meets the requirements of changing markets.[34]

2.5 Institutions of Conflict Management

Social tensions are not good for any economy, therefore, in order to reduce a possibility of conflict such institutions as the rule of law, unbiased courts, free elections and independent trade unions are required. Such institutions guarantee defence to the “weak” against the “strong”.[35]

According to Rodrik, these institutions should be well taken into account while shaping the transition strategy; however, he agreed that the local circumstances should in no way be neglected.

Further, with regard to strategies, Kolodko claimed,

> [...] a transition from a centrally planned economy to a market economy must be executed by means of a gradual process of structural, institutional and behavioural change. Because of the very nature of this long and complex process, it cannot be carried forward in a radical way. It requires time and is costly. It is risky and exposes populations to social and political tensions.[36]

[33] D. Rodrik: 158-159
[34] Ibid: 159-161
[35] Ibid: 161
[36] G. Kolodko: 149

Thus, the variety of views and models of transforming their economies from one type to another created the situation whereby the Kazakh and Uzbek governments were spoilt for choice during the early 1990s. In this regard, the empirical findings should shed more light on the issue of the transition strategies chosen by Kazakhstan and Uzbekistan.

3. Shock Therapy vs. Gradualism

To sum up the above-mentioned arguments and organise them into the theoretical framework, we can look at the main developments which took place from 1991-2007 in Kazakhstan and Uzbekistan. These developments will be addressed below in greater detail and will serve as a platform for comparison of the two Central Asian economies.

Table 2: Liberalisation, Stabilisation and Privatisation[37]

Years/Countries	**Kazakhstan**	**Uzbekistan**
1991	Independence declared	Independence declared
1992		
1993	New currency (tenge) introduced	
1994	Mass privatisation begins; first voucher auction held First treasury bills issued Most prices liberalised[38] Law on foreign investment enacted	New currency (som) introduced Foreign investment law adopted
1995	Customs union with Russia and Belarus established Directed credits eliminated Most foreign trade licenses abolished Central Bank law adopted State orders in agriculture abolished New tax code introduced[39] Customs code introduced[40] Barter trade prohibited	Foreign investment law amended IMF program adopted

[37] EBRD, Transition Reports (1995-2007)

[38] For further details refer to Table 1 in Appendix 2

[39] New tax code, effective 1 July 1995, simplifies and modernises the tax system. It reduced the number of taxes from 49 to 11, and improved incentives by reducing both tax rates and tax concessions and by moving away from production based taxes. The 45-55 per cent profits tax was replaced by a 30 per cent corporate income tax for companies (45 per cent for banks and inusrance companies), and the maximum income rate tax was set at 40 per cent. A uniform VAT was introduced at 20 per cent. To compensate for the expected decline in revenues resulting from these changes, the average import duty was raised from 5 to 15 per cent, excise taxes were imposed on certain goods and VAT was extended to imports from non-CIS countries.

[40] Export quotas were abolished and import and export licences were eliminated. Exemptions from payment of import and export duties were abolished.

	Foreign exchange surrender abolished Edict on land enacted Privatisation law adopted[41]	
1996	IMF programme agreed Last voucher auction held Cash sales to strategic investors begin Full current account convertibility introduced First sovereign Eurobond issued	Privatisation programme adopted[42] IMF programme suspended
1997		Custom duties and export licensing abolished; tariffs increased Customs code enacted
1998		Tax code enacted Import tariffs further increased Tender for 6 large enterprises announced
1999	Temporary trade restrictions on neighbours introduced Major budgetary reforms introduced Export surrender requirement re-introduced temporarily First sovereign Eurobond issued in CIS following Russian crisis	Export surrender increased to 50% Trade barriers against Kazakh and Kyrgyz imports introduced Tender for large copper plant cancelled EU partnership and cooperation agreement adopted New privatisation programme for 27 large enterprises initiated
2000	Oil export quota introduced temporarily Lifelong privileges granted to President Minority stake in TC Oil sold to Chevron National Fund set up	Two administrative exchange rates unified Access to subsidised hard currency restricted
2001	Capital amnesty decreed Simplified new tax code enacted	
2002	New transfer pricing law adopted Revised foreign investment law adopted	Cash currency market partially liberalised Tariffs on consumer goods raised; restrictions against shuttle traders introduced
2003	New land code enacted	Further changes to currency market (part of convertibility action plan) introduced
2004	National Bank of Kazakhstan changed its focus from maintaining	“Localisation” programme launched to modernise Uzbek industry

[41] National Privatisation Program launched the mass privatisation of medium-sized enterprises through auction and sale of shares to investment privatisation funds (IPFs)
[42] Privatisation Investment Fund (PIF) Program was intended to result in the sale of around 600 companies by mid-1998

	exchange rate stability to price stability	Some trade restrictions in bilateral trade with Kazakhstan lifted
2005	New law on production sharing agreements relating to operations at sea enacted Principles of the Extractive Industries Transparency Initiative endorsed	
2006	Sustainable Development Fund established New competition law effective	Around 80% of collective farms restructured Tax benefits to certain joint ventures abolished
2007		Extensive privatisation plan (excl. non-strategic sectors) announced

Table 3: Enterprises, Infrastructure, Finance and Social Reforms[43]

Years/Countries	**Kazakhstan**	**Uzbekistan**
1991	Independence declared Securities and stock exchange law adopted	Independence declared Company law adopted
1992		Competition law adopted Pledge law adopted
1993	Law on banking adopted	Securities law adopted
1994	Competition agency established New civil code enacted	Stock exchange established Bankruptcy law adopted Decree on securities market issued
1995	Presidential decree on bankruptcy issued Bank and enterprise restructuring agency established Anti-monopoly legislation introduced Telecommunications law adopted	Telecommunications law adopted
1996	Subsoil code enacted First major power sector utility privatised New accounting standards adopted	First Treasury bills issued Banking law adopted Land law amended Bankruptcy law amended
1997	New bankruptcy law enacted Pension reform law adopted First ADR issued National power grid formed Stock exchange begins trading	Bank accounting standards adopted
1998	Pension reform launched Turan-Alem Bank privatised Law on natural monopolies adopted	Law on depositories enacted Presidential decree to reform commercial banks issued

[43] EBRD, Transition Reports (1995-2007)

	Small business support programme approved	
1999	New telecommunications law adopted New energy law introduced First municipal bond issued First domestic corporate bond issued Decree on inspections passed	Largest commercial bank partially privatised
2000	New civil service law adopted Tractebel leaves Kazakh energy sector Wholesale power trading company (KOREM) established National Development Bank established	National and international telecommunications companies merged
2001	Gas and oil transport companies merged, creating Kaztransneftegas Railway law adopted	State railway company restructured
2002	National oil and gas company created New tariff methodology for utilities adopted	Utility price adjustments initiated
2003	New law on joint-stock companies effective Strategy for economic diversification adopted	Tariff reform begins (but implicit subsidies in the fuel and energy sector remain large)
2004	State railway company restructured New law on telecommunications adopted Committee for the Protection of Competition established Law on the electric power industry enacted	Number of decrees on the introduction of cashless payments systems passed
2005	Restriction limiting foreign ownership of banks lifted to 50% Consolidated supervision of banking-industrial conglomerates introduced	Uzbektelecom decreed the sole provider of telecommunications connections
2006	New law on concessions adopted Telecommunications market fully liberalised	New anti-money laundering law came into force
2007	New transport money market index (KazPrime) launched	

From the table above, we see that Kazakhstan with its price liberalisation methods (refer to appendix 1 – EBRD Transition Indicators) was closer to the shock therapy model, whereas Uzbekistan with its postponement of currency convertibility, privatisation and freeing prices and incomes fits to the gradualism model. Thus, we may conclude that Kazakhstan while following its transition strategy was closer to the so-called shock therapy model, whereas Uzbekistan's transition strategy was more of a gradual nature. One might be tempted to say that Uzbekistan did not follow any transition path but was mainly driven by the opportunistic desire to grasp the moment. But that kind of understanding is quite naive, since the Uzbek economy has been slowly but gradually reformed since independence and the economy grew even after 1996 when the prices of Uzbekistan's main exporting commodities drastically plummeted. These and other developments in Kazakhstan and Uzbekistan are elaborated in greater detail in the following chapters.

4. The Transition Experience of Kazakhstan

Kazakhstan was the last republic to formally declare its independence from the Soviet Union.[44] Being generously bestowed with natural resources, including crude oil and natural gas reserves, Kazakhstan was expected to achieve much at the very outset of its independence. However, President Nazarbayev's far from successful development strategy, low oil prices, the presence of mismanagement and corruption, and the Russian financial crisis of 1998 are aspects which go some way towards explaining why Kazakhstan's potential was not realised before 2000.

4.1 Liberalisation, Stabilisation and Privatisation

Initially, in the early 1990s, Kazakhstan followed the Russian way of transition at the early stages of independence, by having liberalised prices, i.e. ceasing subsidies and centrally setting prices even on major consumer goods such as bread, milk, etc. Nevertheless, the Kazakh authorities were inconsistent in liberalising prices, keeping their hands on such strategic industries as energy and agriculture. The Kazakh government also introduced early privatisation by selling state assets on a "first come – first serve" basis, mostly, in order to accumulate additional revenues.[45] However, such approaches proved to be unsuccessful, as the Kazakh government failed to organise a

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[44] R. Pomfret, *The Central Asian Economies Since Independence* (New Jersey: Princeton University Press, 2006)
[45] Ibid:44-50

proper institutional infrastructure to back up these reforms. For example, the government of Kazakhstan passed the bankruptcy law to liquidate loss-making enterprises, however these laws were not rigorously followed and implemented, since it was believed that this would affect the rent-seeking of authorities.[46] In other words, legislation and institutions such as monetary stability, freedom of contract and private property rights were premature and under-prepared. Another important aspect of the country's poor performance during the early 1990s is that its economy was tightly integrated with the Soviet economy and any disruption, malfunction or logistical problems were fraught with serious losses for the Kazakh economy.[47] All these consequences were experienced by Kazakhstan immediately after gaining independence. For example, most of the commodities extracted in Kazakhstan were processed beyond Kazakh borders – in Russia or the Baltic states during Soviet times however, after the fall of the "iron curtain" and the dissolution of the Soviet Union, Russia and the Baltic states looked towards the best offers in the market rather than to their entrenched trade relations with Kazakhstan.[48]

Privatisation reforms were not organised either and many large enterprises were alienated from the state in the most part by foreign investors.[49] The lack of transparency and the widespread presence of corruption helped to create new elites and oligarchs. Thus, what had been expected by the Kazakh government a good move towards a market economy and opportunity for budget replenishment turned out to be one of the major blunders during the transition process. This was exactly what Goodhue, Rausser and Simon had in mind having claimed that:

> when pursued too vigorously, privatisation may actually impede the transition process following market liberalisation and reduce social welfare... Compared to a fully functioning market in a mature economy, a market in transition is characterised by greater uncertainty regarding market conditions including free market equilibrium levels of prices and quantities. Market participants must learn

[46] E. Guergen et al., "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan", *IMF Occasional Paper* (183, 1999): 4
[47] M. Kaser, "The Economic and Social Impact of Systemic Transition in Central Asia and Azerbaijan", *Perspectives on Global Development and Technology* (2:3-4, 2003), More details in appendix to be added
[48] Ibid
[49] G. Gleason, *Markets and Politics in Central Asia: Structural Reform and Political Change* (London: Routledge, 2003): 46-47

> about these conditions through their participation in the market process. When the effects of learning are incorporated into the analysis, the optimal level of privatisation decreases monotonically as the level of uncertainty increases.[50]

Thus, the privatisation process was not well-balanced in the early 1990s in Kazakhstan mainly due to the disorganised nature of the whole process due to the necessity to replenish the state budget.

Privatisation decreased its scope in 2000 and has been more organised, transparent and controlled since then.[51] The reason for this is not hard to discover: oil prices were hitting one record after another so the Kazakh government was becoming less dependent on accumulating additional revenues by selling state assets.

4.2 Enterprises, Infrastructure, Finance and Social Reforms

Mass emigration was another problem for Kazakhstan during the early 1990s. Such emigration was a response, or reaction to Kazakhstan's poor economic performance and severe living conditions.[52] Many people left Kazakhstan during this period not only for economic reasons but also for reasons of ethnicity: for instance, ethnic Germans, Jews and Slavs returned to their historic motherlands as soon as it became possible to leave the country. For this reason, the population of Kazakhstan fell from 17 million in 1990 to less than 15 million during the first decade of its independence.[53] While this loss of 2 million people may seem insignificant when we consider the remaining population of 15 million, one should not forget that it resulted in a significant brain drain, because many of those people constituted a well-educated, experienced and skilled part of the Kazakh society and economy, in which they played an important if not to say crucial role. The rate of emigration has decreased considerably since the oil boom and Kazakhstan has seen an

[50] R. Goodhue, G. Rausser and L. Simon, "Privatization, Market Liberalization, and Learning in Transition Economies", *University of California Working Papers* (Berkeley, CA: University of California, 1997): 1
[51] R. Pomfret, *The Central Asian Economies Since Independence*:40-60
[52] C. Becker, E. Musabek, A. Seitenova and D. Urzhumova, "The Migration Response to Economic Shock: Lessons from Kazakhstan", *Journal of Comparative Economics* (33:107, 2005)
[53] R. Pomfret, *The Central Asian Economies Since Independence*:43

inflow of immigrants from neighbouring countries for the first time, primarily from Kyrgyzstan, Tajikistan, Uzbekistan and China.[54]

The Russian financial crisis of 1998 exacerbated the situation in the country and made it apparent to the Kazakh government that there was a need for drastic change. In an attempt to combat the country's problems the Kazakh authorities devalued the local currency (the tenge) in 1999. This, along with rising oil prices helped Kazakhstan recover rapidly from the aftermath of both the Russian financial crisis and their failed reforms since 1991. As a result, Kazakhstan repaid its debts to the IMF in mid 2000 ahead of schedule, ostentatiously demonstrating the health of their economy. [55] In addition to this, the discovery of new large crude oil reserves in Western Kazakhstan in 2000 significantly increased oil revenues and attracted investment to the domestic economy from all over the world. In recent years the economy of Kazakhstan has boomed, only slowing down in mid 2007.[56] Many analysts and experts were quite cautious to name the economic boom in Kazakhstan as the *Kazakh economic miracle*, since it was primarily based on the exploitation of natural resources. Nevertheless, oil revenues were relatively successfully invested into infrastructure (mainly of extractive industries) and institution-building (by enacting and implementing the legislature on promotion of SMEs and combating money laundering) as well as helping Kazakhstan become a self-sufficient state without borrowing money from other countries and international financial organisations.[57]

5. The Reverse Side of the Economic Boom

The major concerns for Kazakhstan's future are dependency on oil and main commodities prices, the lack of a proper institutional framework, deficiency of small and medium sized enterprises (SMEs), a shortage of investment in the social sector and endemic corruption. Another problem is based on the fact that the institutional framework has to catch up with the feats of the rapid economic development and this can be only done with the direct involvement of the Kazakh authorities in the institution-building

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[54] M. Laruelle, "Kazakhstan, the New Country of Immigration for Central Asian Workers", *Central Asia-Caucasus Analyst* (30-04-2008), Available online at http://www.cacianalyst.org/?q=node/4848, accessed on May 10, 2008
[55] R. Pomfret, *The Central Asian Economies Since Independence*:41
[56] V. Yaduha, "Nazarbayev Prizval Zatyanut' Poyasa", *RBC Daily* (07.02.2008), available online at http://www.rbcdaily.ru/2008/02/07/focus/319561 - accessed on February 24, 2008
[57] R. Pomfret, *The Central Asian Economies Since Independence*

process.[58] Corruption is an omnipresent and serious problem within Kazakhstan and other developing countries. Currently, the country is ranked 150 out of 179 countries by Transparency International.[59] Obviously, there is no remedy for this but it would be expedient for the Kazakh government to strive for further transparency, especially in such issues as privatisation and state procurement tenders. This would help to fairly distribute petroleum income and thus ensure long-term economic development as well as preventing enrichment of the local elite. As Japanese experience demonstrates, during the economic boom the government should encourage and help SMEs in order to ensure the long-term sustainability of the economy. Kazakhstan is not an exception and would do well to follow the Japanese example in order to secure its own long-term prospects.

Immediate action is required on the healthcare system in Kazakhstan, since almost all health indicators, except maternal and child healthcare, are below the levels of 1991.[60] The growing rate of HIV/AIDS is also a problem that should be addressed as soon as possible before it reaches a point beyond control.

In 2003 the Kazakh government declared its intention to diversify its economy by investing oil revenues in other sectors, such as information technologies, space industry, agriculture and oil-contiguous sectors. Three institutions were established to support this strategy, namely the Investment Fund, the Development Bank and the National Innovation Fund.[61] This clearly shows that the government is aware of its dependency on one sector even though it is a lucrative one. However it is quite early (timewise) to evaluate the work of the above-mentioned institutions; so far only investment in agriculture has been shown as a tangible success.

6. The Transition Experience of Uzbekistan

Uzbekistan is the largest country in Central Asia in terms of population. The country possesses important commodities such as crude oil, natural gas, cotton, gold and uranium. The economic performance of Uzbekistan during the early- to mid- 1990s was named the

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[58] P.J. Luong, “Economic Decentralisation in Kazakhstan: Causes and Consequences” in P.J. Luong ed., *The Transformation of Central Asia* (NY: Cornell University Press, 2004)

[59] “Corruption Perceptions Index 2007”, *Transparency International* (2007), available online at http://www.transparency.org/policy_research/surveys_indices/cpi/2007, accessed on April 14, 2008

[60] “Country Assistance Evaluation of Uzbekistan and Kazakhstan”, *Ministry of Foreign Affairs of Japan* (2005)

[61] R. Pomfret, *The Central Asian Economies Since Independence*

"Uzbek Paradox" or "Uzbek Puzzle".[62] The reasons for these tags are easy to understand: the IMF and other international financial organisations urged the Uzbek government to introduce drastic changes while altering its direction from the planned economy into the market economy in order to avoid negative upheavals and make the transition period smoother.[63] Much to the disappointment of the recommending bodies, the Uzbek administration announced gradualism as their way of transforming one type of economy into another.[64] The decision of the Uzbek government was not approved by the international actors and the expected outcome did not seem promising. However, Uzbekistan's economic performance during the first decade of its independence toppled all pessimistic expectations. For instance, Uzbekistan was ranked fourth among twenty transition economies and number one among the CIS countries in the index of quality of governance, and its cumulative decline of GDP up to 1996 was the lowest among all of the former Soviet republics.[65] However, gradualism was not the only reason for the "Uzbek Paradox". During the period from 1991-1996 the prices of gold and cotton rose, this generated substantial revenues and therefore maintained a balance of payments. Oil self-sufficiency was another factor that added to the creation of the "Uzbek Paradox" owing to the fact that Uzbekistan was not forced to jump from the non-market prices set by Moscow during the Soviet times to the world prices driven by market regulations.[66]

Unlike the Kazakh government, the Uzbek government kept tight control over its main industries, sectors and initiatives, such as gold mining, cotton growing, petroleum and privatisation. Thus, the development strategy of Uzbekistan was explicitly inward driven with all tariff barriers and import substitution measures starting from 1996, and the government introduced numerous protective measures which negatively affected international trade but supposedly protected the domestic producer. Another paradox is based on the fact that whilst investment in the economy was not large, the Uzbek

[62] For instance, refer to M. Spechler, S. Chepel, F. Suvankulov and K. Bektemirov "The Uzbek Paradox: Progress without Neo-Liberal Reform" in G. Ofer and R. Pomfret ed., *The Economic Prospects of the CIS-Sources of Long Term Growth since 1991* (Cheltenham: Edward Elgar, 2004): 177-197
[63] G. Gleason: 127
[64] Asian Development Bank, "Country Strategy and Program Update 2002-2004: Uzbekistan", *Asian Development Bank Country Strategy*, available online at http://www.adb.org/Documents/CSPs/UZB/2001/csp100.asp - accessed on 12/11/2008
[65] C. Gray, J. Hellman and R. Ryterman, *Anticorruption in Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999-2002* (Washington: The World Bank, 2004)
[66] R. Pomfret, *The Central Asian Economies Since Independence*

government was able to attract huge corporations such as Coca-Cola, Newmont, British American Tobacco and Daewoo to Uzbek soil.[67] Whilst in the short-term such a strategy has proved to be successful, in the long-term it had some serious deficiencies and drawbacks.

7. Knocked Illusions

7.1 *Liberalisation, Stabilisation and Privatisation*

Declining world prices of cotton and gold during 1995-1997 tempered the euphoria of the Uzbek government regarding its gradual reforms.[68] It became obvious that the issue of institutional change had not been resolved but rather postponed. The IMF strengthened its pressure on Uzbekistan concerning foreign exchange liberalisation during this time. But since the decline in world prices of cotton and gold was not able to stop the inertia of the country's economic performance, the Uzbek government kept reiterating that the economy was not yet ready for full liberalisation of its foreign exchange.[69] Such claims did not contribute to long-term development and growth of the Republic and were considered irrational and illogical by many experts. However, Kolodko argued that "some shifts may be ideologically or politically motivated and welcomed by certain groups which are unconcerned about the implications for society".[70] In this regard, such steps were rather understandable, even though they were counter-productive and harmful for the economy in the long run.

Unlike Kazakhstan, Uzbekistan gave away only one large enterprise to foreign investors, a cement company. Other large enterprises were coordinated by the government either by direct control or by a controlling interest. Uzbekistan was reluctant to borrow funds from international organisations such as the IMF and the World Bank, and relied for the most part on its own revenues. Due to this fact, the international debt of Uzbekistan has remained quite low.[71]

Although Uzbekistan's GDP continued to grow after 1996, this growth was rather insignificant compared to Kazakhstan's. Whilst there could be numerous reasons for this

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[67] R. Pomfret, *The Central Asian Economies Since Independence*
[68] M. Spechler, "Hunting for the Central Asian Tiger", *Comparative Economic Studies* (42:3, 2000): 10
[69] IMF Urges Uzbekistan to Speed Up Reform, *The Moscow Times* (March 16, 2005)
[70] G. Kolodko: 147
[71] R. Pomfret, *The Central Asian Economies Since Independence*

including various exogenous factors, the main reasons are exchange controls, extremely cautious economic policy and rent-seeking activities. It appears that, during this period of transition, the Uzbek economy was closer to the planned Soviet economy rather than to a regulated market economy. For instance, Uzbek farmers growing cotton and wheat found themselves in a difficult position, since they were not allowed to sell their crop by choosing the best offers in the market, but instead had to, fulfil the plan (which was usually excessive) set by the authorities commodity boards and sell it to the state at considerably lower prices.[72] In principle, any surplus could then be sold in the market, however in practice the excessive plan did not leave any surplus for the farmers to sell.

It therefore becomes obvious why the relatively good economic performance and smooth transition of Uzbekistan until 1996 was tagged with the ambiguous title of the "Uzbek Puzzle". The designed Uzbek system (some argue that it was not designed but was rather a result of exogenous factors and opportunistic behaviour of the Uzbek government) clearly demonstrated that it was not flexible enough to meet emerging challenges and changing circumstances.[73] Therefore, some institutions were readjusted in early 2000s in order to mitigate existing challenges. For instance, the Uzbek government agreed with the IMF on monetary issues, such as national currency convertibility and floating exchange rate.

7.2 *Enterprises, Infrastructure, Finance and Social Reforms*

The reverse side of the reluctance of the Uzbek authorities to liberalise its foreign exchange rate was the heyday of the shadow economy: the gap between the state (official) exchange rate and the black market rate reached 200-300% and, as a consequence, the majority of companies were unwilling to export their goods via official channels and searched for various loopholes; as a result of this export revenues fell significantly. Nevertheless, it was not properly reflected in official statistics, since the statistics were heavily manipulated by the authorities with the aim of hiding the world prices of exporting commodities as the prices paid to the local producers were based on the official exchange rate.[74]

[72] M. Spechler, *The Political Economy of Reform in Central Asia* (New York: Routledge, 2008): 36
[73] G.Kolodko: 148
[74] "Uzbekistan: Stagnation and Uncertainty", *International Crisis Group* (Briefing 67: August 22, 2007): 4

The education system in Uzbekistan underwent some serious changes during the first decade of independence. Compulsory nine-year school education and an additional two to three years were introduced, with the last two-three years being spent either at a lyceum or specialised college. As for university studies, the five-year Soviet type of education was replaced by the bachelor's (4 year) and master's (2 year) programs. Although at bachelor's level studies the education is more or less of an acceptable standard at most universities, the master's level education often puzzles even tutors and lecturers, since the current system of education was imposed artificially rather than being a result of evolutionary change. In a nutshell, the five-year Soviet type studies program was extended to six years without any significant change in the content. This has significantly affected the quality of education at the master's level which by international standards is poor. Nevertheless a master's degree diploma is an absolute necessity for those who wish to work and advance in governmental structures.

Another acute problem of the Uzbek system of education is bribery – many lecturers and students find themselves negotiating for the price of a grade. A solution to this problem would be the liberalisation of the system of education by reducing the grip of the Uzbek authorities on education. This could be achieved by the establishment of private schools and universities, however, the Ministry of Education stays firm in its disregard of this solution for two main reasons: 1) it may create problems for the political stability of the country, and 2) it would significantly affect the rent-seeking of bureaucrats.

Attempts at the transformation of the health system have shown to be quite successful – in one instance the government abolished several bureaucratic tiers in the Uzbek health system and delegated more responsibility to the general practitioners to ensure its overall efficiency. Nevertheless, this reform is not sufficient, as it remains a heavy burden for the government to provide free health services for the entire population. Consequently, the quality of health services is rather low and there is a clear shortage of necessary drugs for all patients. However, unlike the educational experience, the government has permitted the opening of private practices to deliver various health services. While the quality of services is rather reasonable in such clinics, prices are far from affordable for the general public. In another health related issue, even though the spread of drug addiction and HIV/AIDS has been growing in recent times, they remain rather low in absolute numbers (exact figures yet to be verified).

8. Wind of Change?

After the events of September 11, the international community, with the US at its head increased its attention on Central Asia and on Uzbekistan in particular. The US opened airbases in southern Uzbekistan and many investors hoped that this would bring essential changes to the Uzbek economy and reforms. In spite of this, the IMF was disappointed by slow reforms, growing tariff and non-tariff barriers and numerous restrictions on privatised SMEs,[75] whilst the EBRD, which held its Annual Board of Governors Meeting in May 2003 in Tashkent, reduced or even terminated its initiatives due to the lamentable human rights conditions reported in the country.[76]

In 2005 the economy of Uzbekistan signalled some improvement after President Karimov's decree on further liberalisation of the economy and the backing of SMEs. The IMF, EBRD, ADB and international investors reacted positively to such a move by the Uzbek authorities and the investment inflow to the republic rose by 42% from 2005 to 2006.[77]

In general, Uzbekistan's transition was not bad but could definitely have been better taking into account its enormous potential. The major problems for Uzbekistan to date are slow reforms, a debilitating education system, unbalanced exchange rate mechanism, red tape, impediments and obstacles for operations of SMEs and, as in case of Kazakhstan, omnipresent corruption.

The education system needs an immediate and direct intervention by the government before it is irrevocably damaged. In order to improve the overall quality of education, private universities and schools who meet the prescribed standards of education set by the Ministry of Education should be established to enhance competition between institutions, and salaries of lecturers should be increased. However, this should be well planned out and implemented gradually, since overnight changes may be fraught with problems, such as the mass defection of lecturers from the public universities to private ones due to the promise of better salaries and work conditions. It is important to note that some steps in this process have been done already: the Uzbek government agreed to establish branches

[75] "Uzbekistan: Business Outlook", *Business Eastern Europe* (October 15, 2007)
[76] R. Synovitz, "Uzbekistan: EBRD Freeze on Aid Praised by NGOs", *Radio Liberty* (April 19, 2004)
[77] "Uzbekistan at a Glance", *World Bank Country Report* (2007)

of the Westminster International University, UK and Moscow State University, Russia in Tashkent.

To combat the problem of corruption, merely increasing the transparency and accountability of civil servants may not be a solution, however it would significantly diminish the scope of corruption. The country was ranked 175(!) out of 179 countries by Transparency International in 2007.[78] Also, SMEs should be given more space to realise their economic potential, since at the end of the day a legal working environment would enable the Uzbek authorities to collect more taxes and ensure the overall health of the economy.

9. Prospects

As current trends appear to show, Kazakhstan has a better chance in an economic sense to succeed and become the regional leader over Uzbekistan. Although Kazakhstan ruined the first decade of its independence due to its poor economic policy choices (primarily) and low prices on its main exporting commodities (secondarily), the country has seemingly been able to recover from this poor start and get its economy back on track. Whereas Uzbekistan, having initially demonstrated promising performance, due to good economic policy choices (primarily), such as well-balanced privatisation, and buoyant prices on its main exporting commodities (secondarily) it found itself lagging behind Kazakhstan by the turn of the century.

The diversification of export production in Kazakhstan and Uzbekistan will create the basis for long-term macroeconomic stability and secure the economies against the "Dutch disease".[79] For instance, if Kazakhstan builds a new pipeline to diversify its supply of oil, it would be yet another lucrative source that would accelerate the economic development of the country.[80]

Another aspect which adds to the picture of Kazakhstan's supremacy in the mid-term is the political stability of the country. Supposedly, the Kazakh elite has already had its piece of pie by illegal or semi-legal deals, privatisation and corruption and now strives to

[78] "Corruption Perceptions Index 2007"
[79] C. Dunis and G. Shannon, "Emerging Markets of South-East and Central Asia: Do They still Offer a Diversification Benefit?", *Journal of Asset Management* (6:3, 2005): 172, see also EBRD, *Transition Report 2007: People in Transition (2007)*: 143
[80] "Central Asia: the Risks of Contagion", *Emerging Markets Monitor* (11:7, 2005): 15

secure its own spoils by establishing the rule of law and a proper institutional framework. This assumption leads to the conclusion that Kazakhstan would do best to moderate the rate of corruption in the country and ensure it no longer suffers from the rampant corruption like it did at the beginning of the 1990s.

Uzbekistan may challenge Kazakh supremacy in the region if it opens up its economy, creates an attractive investment climate and diminishes the scope of its own brain drain. In addition, the Uzbek government should loosen its control over the economy, remove hindrances for SMEs and invest heavily in the education sector. These may all boost the country's economic success in the mid term and then provide long term economic benefits. Failing to follow the above-mentioned steps may be fraught with gloomy consequences, such as stagnation and further debilitation of the economy, moreover the country will drift further apart from Kazakhstan for many years to come.

Much has yet to be done to develop and enhance the proper institutions which would become the pillars of the successful transition towards a market economy. It will certainly require close collaboration between national and international actors. But all of these recommendations would become void if they do not match the ruling elite's interests.[81] As Kolodko argued, the gradual approach towards transition could be fruitful if it is used for appropriate institution-building but not wasted from the perspective of institutional reform.[82] Moreover, Kolodko claimed that without a proper institutional framework initiated and implemented by the government the whole transition process may spill over into "crony capitalism", [83] which is actually the case in both the Central Asian republics under scrutiny.

> Without a vision of the way to establish a new system and without an understanding of the way it should work, one will not be able to realize the new system readily or easily. The transition protracts; the costs rise and the outcomes

[81] P.J. Luong, "Political Obstacles to Economic Reform in Uzbekistan, the Kyrgyz Republic, and Tajikistan: Strategies for Moving Ahead" in C. Shiells and S. Sattar, *The Low-Income Countries of the Commonwealth of Independent States: Progress and Challenges in Transition* (Washington: International Monetary Fund, 2004)
[82] G. Kolodko: 143
[83] G. Kolodko: 144

> are less than what they might have been: the recession lasts too long; recovery comes so late, and output expands only very slowly.[84]

It would not be correct to claim that the governments of Kazakhstan and Uzbekistan are lacking this vision, rather they are not willing to implement this vision since it may seriously affect their rent-seeking. Thus, one may conclude that this vision could be implemented only if it somehow matches or at least does not detrimentally affect the *status quo*. Another problem is that while old institutional arrangements were abandoned, new ones have not yet emerged. For instance, the *Gosplan* does not exist anymore, neither does a fully-fledged stock exchange market. In such turbulent times temporary institutional arrangements should be initiated and implemented by the governments, however, it is difficult to determine what kind of temporary institutions may serve this purpose.

At the moment, Kazakhstan's attempts at institutional adaptation (privatisation, exchange liberalisation, price and trade) to the market economy, enterprise governance and restructuring and competition policy were evaluated better than Uzbekistan's by the EBRD – on a scale from 1 to 4 (where 4 is the highest) Kazakhstan generated 2.9 on average, whereas Uzbekistan while it beat Kazakhstan on initial reforms, generated 2 on average, mainly failing on the issue of reform implementation (refer to appendix for further details).[85]

The ideal scenario, to which all Central Asian states are called upon by various experts, specialists and analysts, is regional integration. Much has been said about the pros and cons of Central Asian integration (where pros significantly outweigh the cons),[86] however, little has been done or is about to be done, since the leaders of the Central Asian countries are putting their own ambitions above the benefits integration may potentially bring, and as a result, the Central Asian governments are reluctant to concede some leverage in favour of the supranational body. Meanwhile, Kazakhstan and Uzbekistan

[84] Ibid: 144
[85] *EBRD Transition Indicators 2007*, available online at http://www.ebrd.com/country/sector/econo/stats/index.htm - accessed on April 28, 2008
[86] For instance, refer to D. Bartlett, "Economic Development in the Newly Independent States: the case for Regionalism", *European Journal of Development Research* (13:1, 2001) and V. Paramonov et al., "Regional Cooperation in Central Asia: a View from Uzbekistan", *Problems of Economic Transition* (49:4, 2006)

have been mostly driven by their negative attitudes to each other, leaving little room for future convergence of the economies, whilst following different transition paths that further decrease the chances of finding common economic, political and social denominators in the future.

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Appendix 1

EBRD Transition Indicators

		1990	1991	1992	1993	1994	1995	1996	1997	1998
Large scale privatisation	KAZAKHSTAN	1.00	1.00	1.00	2.00	2.00	2.00	3.00	3.00	3.00
	KYRGYZ REPUBLIC	1.00	1.00	2.00	2.00	3.00	3.00	3.00	3.00	3.00
	RUSSIAN FEDERATION	1.00	1.00	2.00	3.00	3.00	3.00	3.00	3.33	3.33
	TAJIKISTAN	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00	1.67
	UZBEKISTAN	1.00	1.00	1.00	1.00	2.00	2.67	2.67	2.67	2.67
Small scale privatisation	KAZAKHSTAN	1.00	1.00	2.00	2.00	2.33	3.00	3.33	4.00	4.00
	KYRGYZ REPUBLIC	1.00	1.00	2.00	3.00	4.00	4.00	4.00	4.00	4.00
	RUSSIAN FEDERATION	1.00	1.00	2.00	3.00	3.00	4.00	4.00	4.00	4.00
	TAJIKISTAN	1.00	1.00	2.00	2.00	2.00	2.00	2.00	2.33	3.00
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.67	1.67	2.00	2.00
	UZBEKISTAN	1.00	1.00	1.00	2.00	3.00	3.00	3.00	3.00	3.00
Enterprise restructuring	KAZAKHSTAN	1.00	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00
	KYRGYZ REPUBLIC	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00
	RUSSIAN FEDERATION	1.00	1.00	1.00	1.00	1.67	2.00	2.00	2.00	2.00
	TAJIKISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.67
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.67	1.67
	UZBEKISTAN	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00
Price liberalisation	KAZAKHSTAN	1.00	1.00	2.67	2.67	2.67	4.00	4.00	4.00	4.00
	KYRGYZ REPUBLIC	1.00	1.00	2.33	3.67	4.33	4.33	4.33	4.33	4.33
	RUSSIAN FEDERATION	1.00	1.00	3.67	3.67	3.67	3.67	3.67	3.67	3.33
	TAJIKISTAN	1.00	1.00	2.67	2.33	2.33	3.33	3.67	3.67	3.67
	TURKMENISTAN	1.00	1.00	1.00	1.00	2.33	2.67	2.67	2.67	2.67
	UZBEKISTAN	1.00	1.00	2.67	2.67	3.67	3.67	3.67	3.33	2.67
Competition Policy	KAZAKHSTAN	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00
	KYRGYZ REPUBLIC	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00
	RUSSIAN FEDERATION	1.00	2.00	2.00	2.00	2.00	2.00	2.00	2.33	2.33
	TAJIKISTAN	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00	2.00
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00	2.00
Banking reform & interest rate liberalisation	KAZAKHSTAN	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.33	2.33
	KYRGYZ REPUBLIC	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.33	2.33
	RUSSIAN FEDERATION	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.33	2.00
	TAJIKISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	1.00	1.00	1.00	1.00	1.00	1.67	1.67	1.67	1.67
Securities markets & non-bank financial institutions	KAZAKHSTAN	1.00	1.00	1.00	1.00	1.67	1.67	1.67	1.67	2.00
	KYRGYZ REPUBLIC	1.00	1.00	1.00	1.00	1.00	1.67	2.00	2.00	2.00
	RUSSIAN FEDERATION	1.00	1.00	1.00	1.67	1.67	2.00	3.00	3.00	1.67
	TAJIKISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

	UZBEKISTAN	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00
		1999	2000	2001	2002	2003	2004	2005	2006	2007
Large scale privatisation	KAZAKHSTAN	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	KYRGYZ REPUBLIC	3.00	3.00	3.00	3.00	3.00	3.67	3.67	3.67	3.67
	RUSSIAN FEDERATION	3.33	3.33	3.33	3.33	3.33	3.33	3.00	3.00	3.00
	TAJIKISTAN	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33
	TURKMENISTAN	1.67	1.67	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67
Small scale privatisation	KAZAKHSTAN	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	KYRGYZ REPUBLIC	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	RUSSIAN FEDERATION	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	TAJIKISTAN	3.00	3.33	3.67	3.67	3.67	3.67	4.00	4.00	4.00
	TURKMENISTAN	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	UZBEKISTAN	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.33	3.33
Enterprise restructuring	KAZAKHSTAN	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	KYRGYZ REPUBLIC	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	RUSSIAN FEDERATION	1.67	2.00	2.33	2.33	2.33	2.33	2.33	2.33	2.33
	TAJIKISTAN	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67
	TURKMENISTAN	1.67	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	2.00	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67
Price liberalisation	KAZAKHSTAN	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	KYRGYZ REPUBLIC	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33
	RUSSIAN FEDERATION	3.33	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	TAJIKISTAN	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
	TURKMENISTAN	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67
	UZBEKISTAN	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67
Competition Policy	KAZAKHSTAN	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	KYRGYZ REPUBLIC	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	RUSSIAN FEDERATION	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33
	TAJIKISTAN	2.00	2.00	1.67	1.67	1.67	1.67	1.67	1.67	1.67
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	2.00	2.00	2.00	2.00	1.67	1.67	1.67	1.67	1.67
Banking reform & interest rate liberalisation	KAZAKHSTAN	2.33	2.33	2.67	2.67	3.00	3.00	3.00	3.00	3.00
	KYRGYZ REPUBLIC	2.00	2.00	2.00	2.00	2.33	2.33	2.33	2.33	2.33
	RUSSIAN FEDERATION	1.67	1.67	1.67	2.00	2.00	2.00	2.33	2.67	2.67
	TAJIKISTAN	1.00	1.00	1.00	1.67	1.67	2.00	2.00	2.33	2.33
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.67
Securities markets & non-bank financial institutions	KAZAKHSTAN	2.00	2.33	2.33	2.33	2.33	2.33	2.33	2.67	2.67
	KYRGYZ REPUBLIC	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	RUSSIAN FEDERATION	1.67	1.67	1.67	2.33	2.67	2.67	2.67	3.00	3.00
	TAJIKISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	TURKMENISTAN	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	UZBEKISTAN	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00

Appendix 2

Table 1: Price Liberalisation[87]

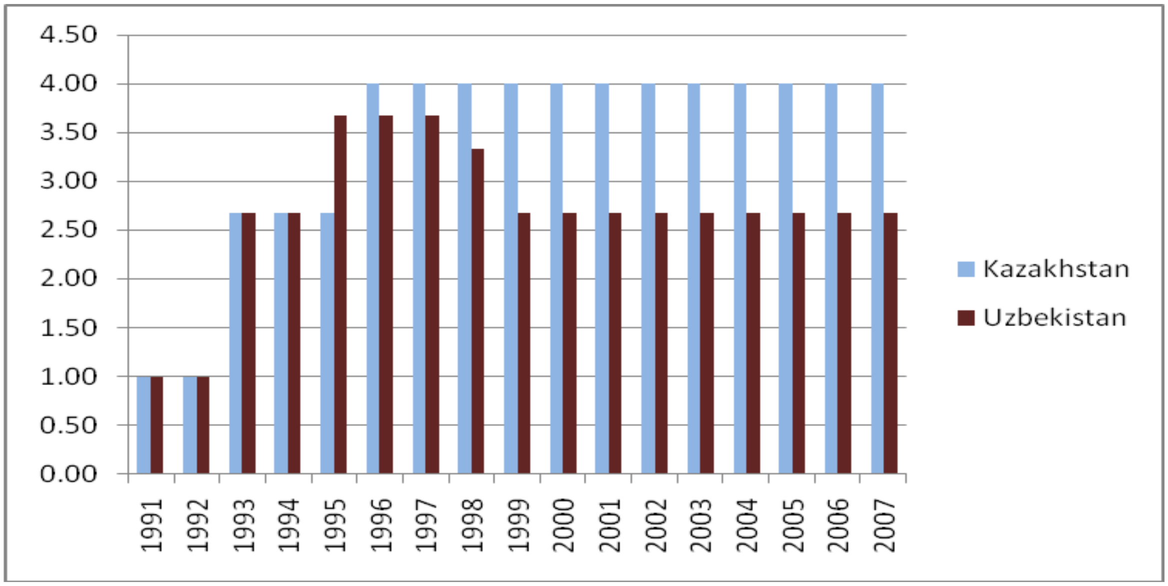
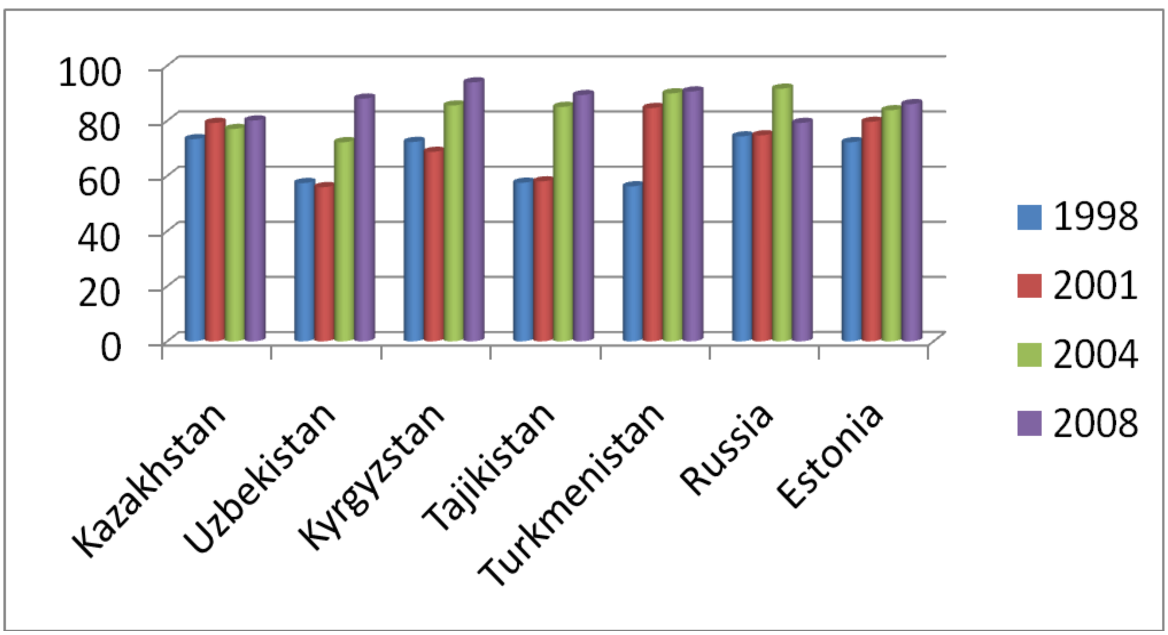


Table 2: Fiscal Freedom[88]



[87] European Bank for Reconstruction and Development, http://www.ebrd.com/country/sector/econo/stats/index.htm
[88]The Heritage Foundation, http://www.heritage.org/research/features/index/index.cfm

Table 3: Inflation rate in Kazakhstan and Uzbekistan in 1993-1999[89]

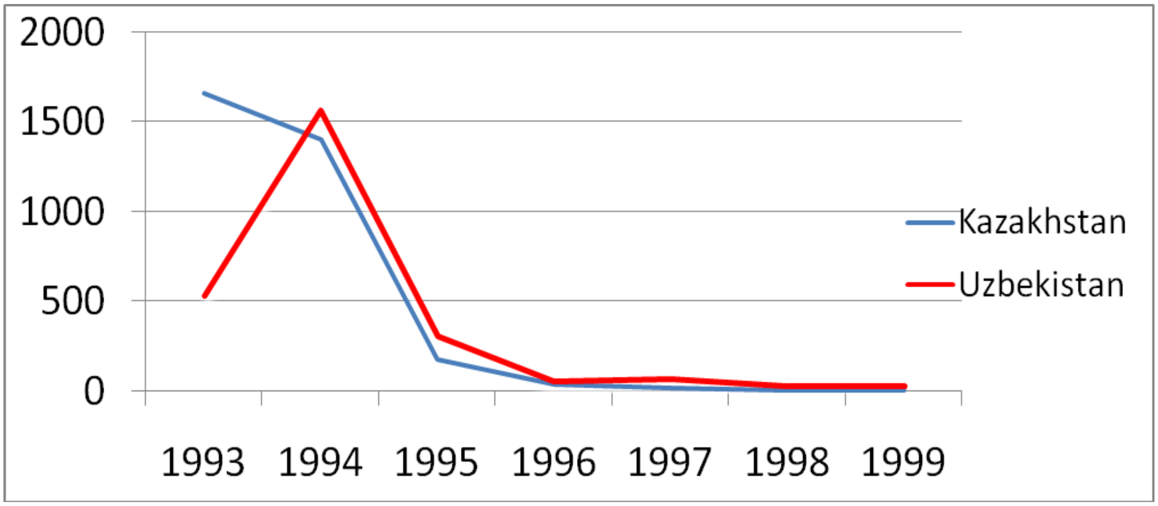
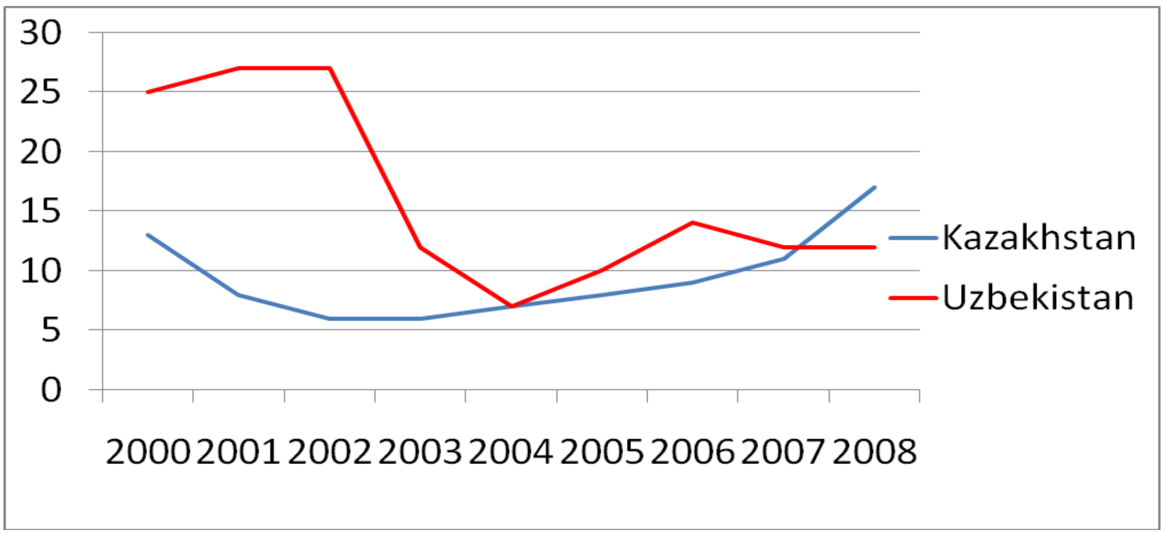


Table 4: Inflation rate in Kazakhstan and Uzbekistan in 2000-2008[90]



[89] International Monetary Fund, http://www.imf.org/external/pubs/ft/weo/2008/01/pdf/tables.pdf
[90] International Monetary Fund, http://www.imf.org/external/pubs/ft/weo/2008/01/pdf/tables.pdf

Table 5: Inflation in Kazakhstan and Uzbekistan (GDP Deflator)[91]

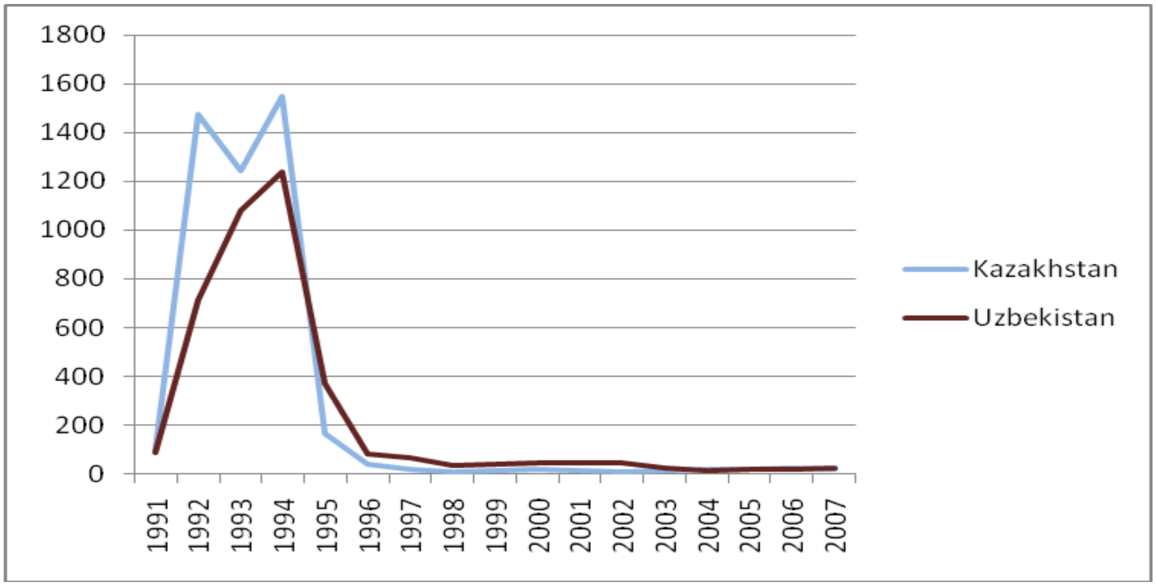
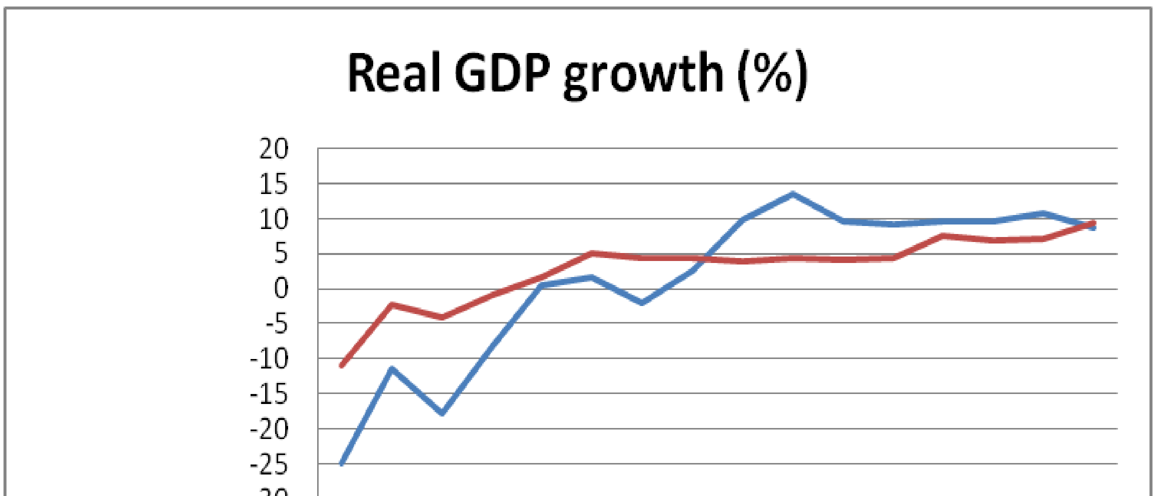


Table 6: Real GDP Growth in Kazakhstan and Uzbekistan[92]

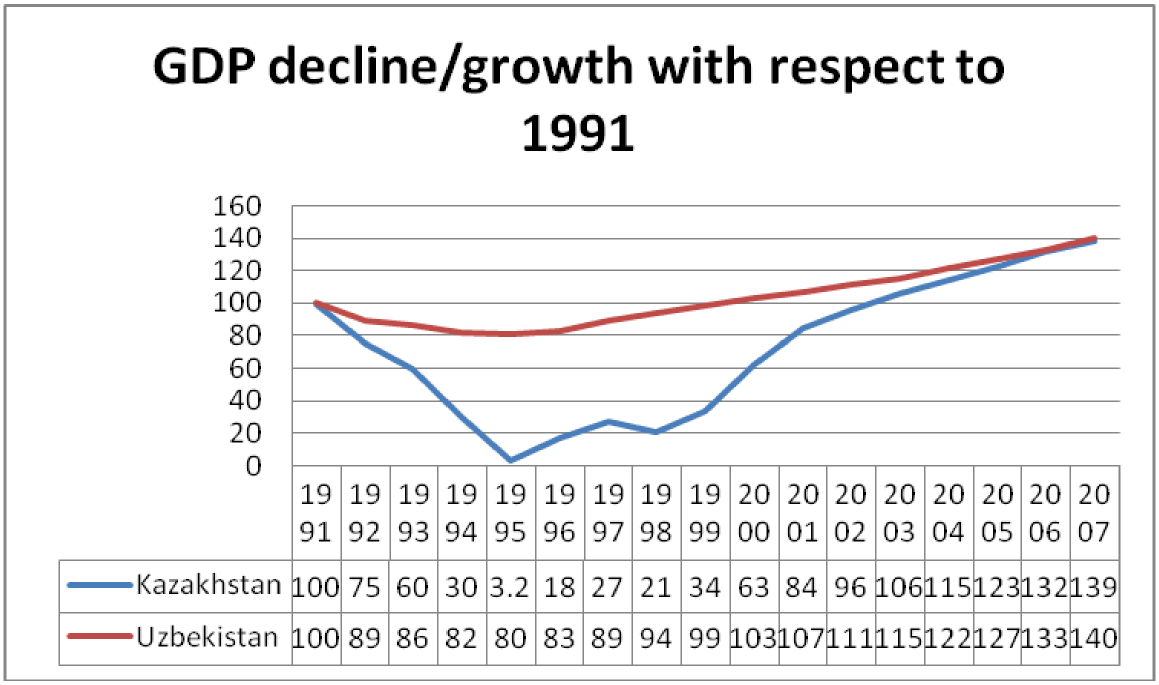


	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Kazakhstan ...	-25	-11.	-17.	-8.3	0.5	1.7	-1.9	2.7	9.8	13.5	9.8	9.3	9.6	9.7	10.7	8.8
Uzbekistan ...	-11.	-2.3	-4.2	-0.9	1.7	5.2	4.4	4.4	4.0	4.5	4.2	4.4	7.7	7.0	7.3	9.5

[91] World Bank Indicators, available at http://ddp-ext.worldbank.org.ezp-prod1.hul.harvard.edu/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=6, accessed on Jan 16, 2009

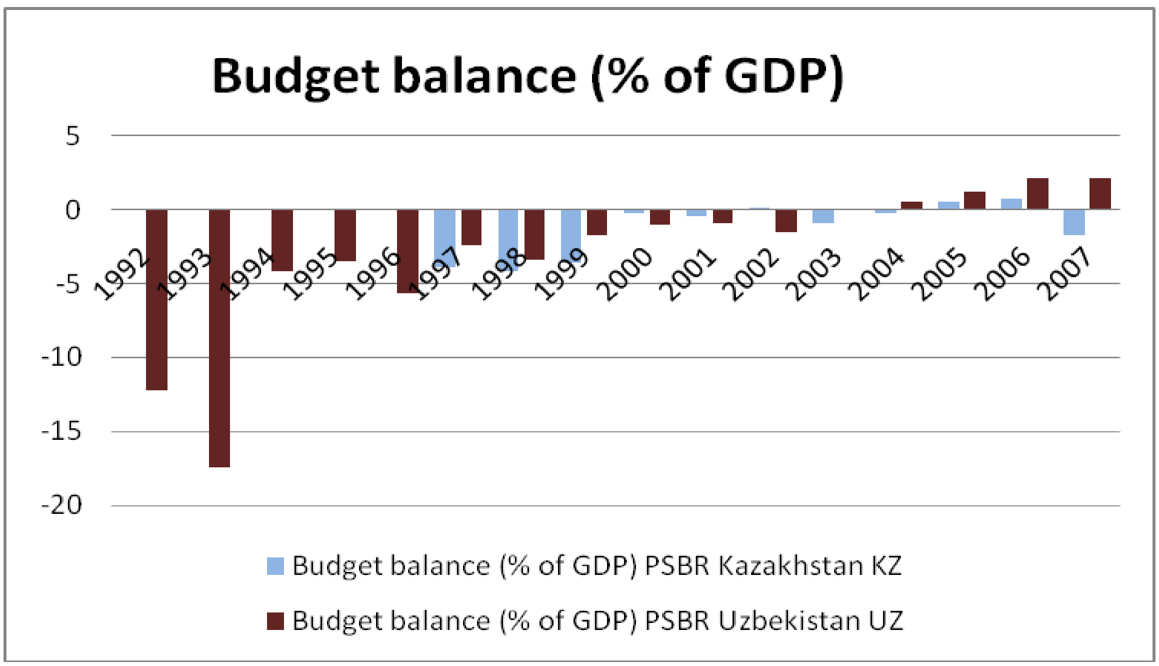
[92] International Monetary Fund, available online at http://www.econstats.com/weo/CUZB.htm and http://www.econstats.com/weo/CKAZ.htm, accessed on December 9, 2008

Table 7: GDP decline/growth with respect to 1991[93]



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Kazakhstan	100	75	60	30	3.2	18	27	21	34	63	84	96	106	115	123	132	139
Uzbekistan	100	89	86	82	80	83	89	94	99	103	107	111	115	122	127	133	140

Table 8: Budget Balance in Kazakhstan and Uzbekistan[94]



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[93] International Monetary Fund, available online at http://www.econstats.com/weo/CUZB.htm and http://www.econstats.com/weo/CKAZ.htm, accessed on December 9, 2008

[94] Economist Intelligence Unit, available online at http://secure.alacra.com.ezp-prod1.hul.harvard.edu/cgi-bin/alacraswitchISAPI.dll?app=eiusite&msg=ExecContent&topic=GetSearchOptions&sk=cikwfoaajjfduvzqtcjagntgokartvp&datasource=countrydata, accessed on Jan 20, 2009

Table 9: Long-Term Interest Rate Development in Kazakhstan and Uzbekistan (%)[95]

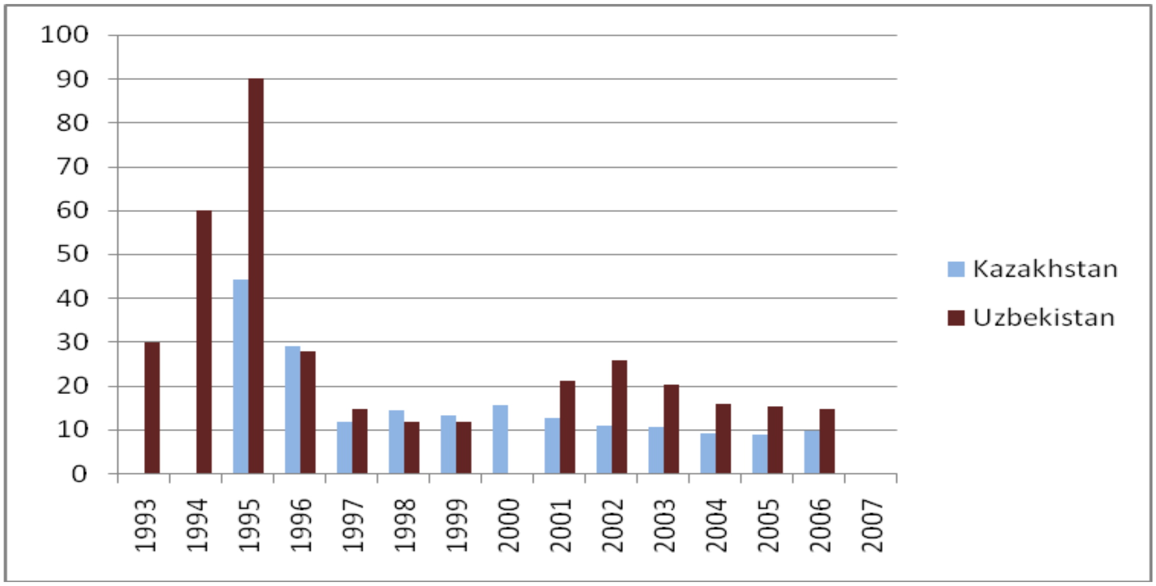

Table 10: Short-Term Interest Rate Development in Kazakhstan and Uzbekistan (%)[96]

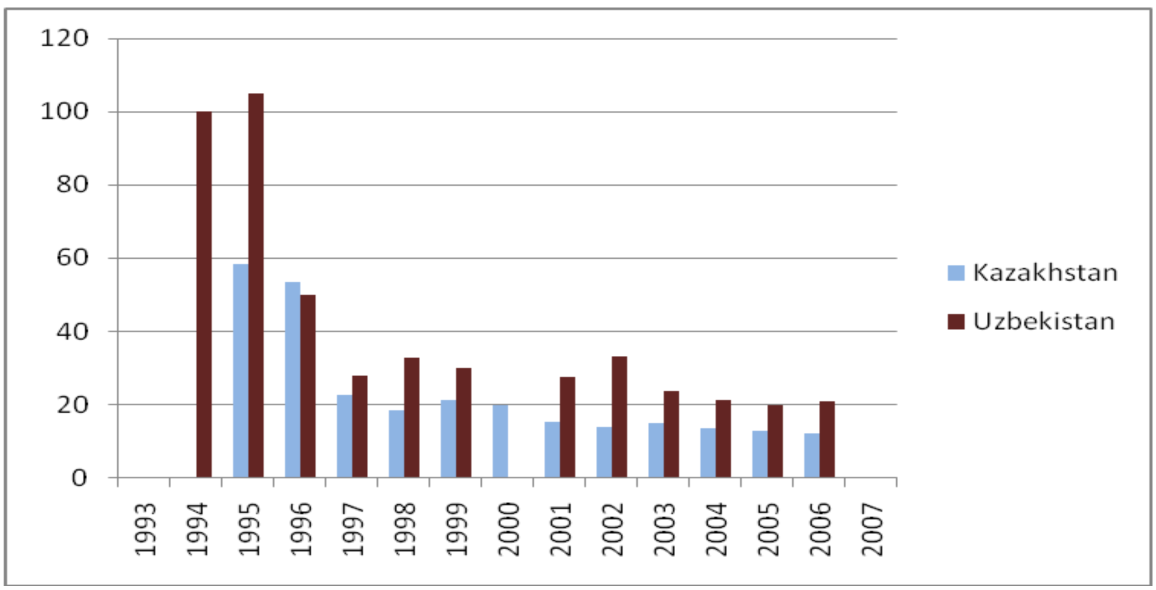

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Table 11: Money Market Interest Rate (%)[97]

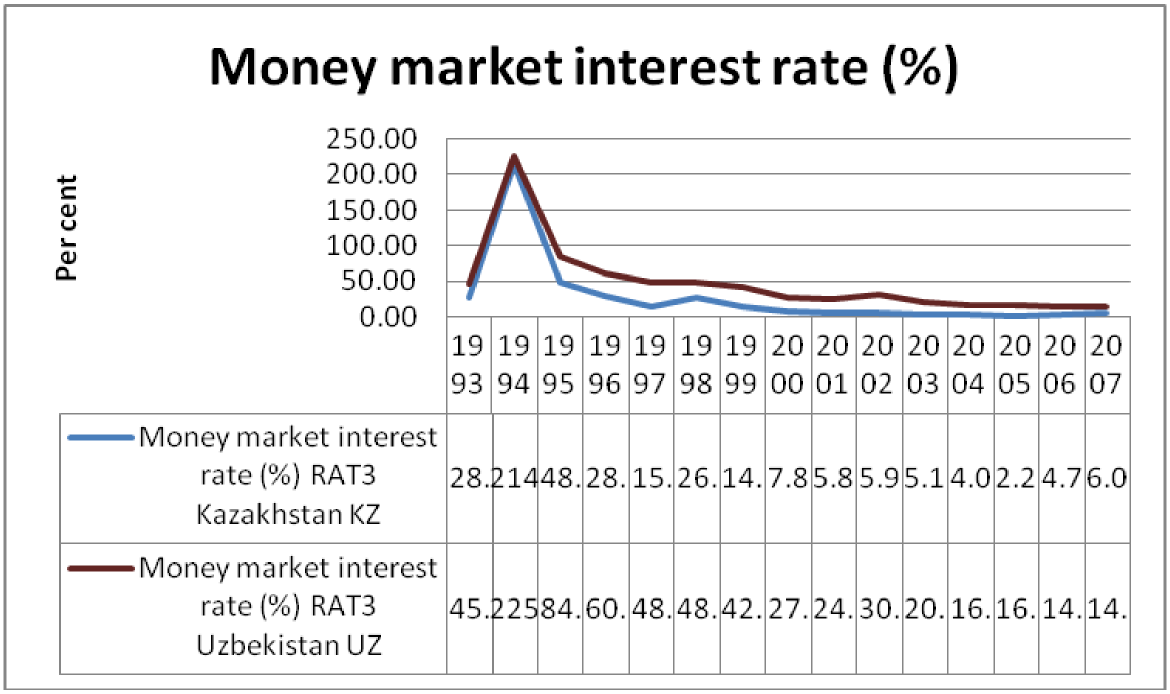
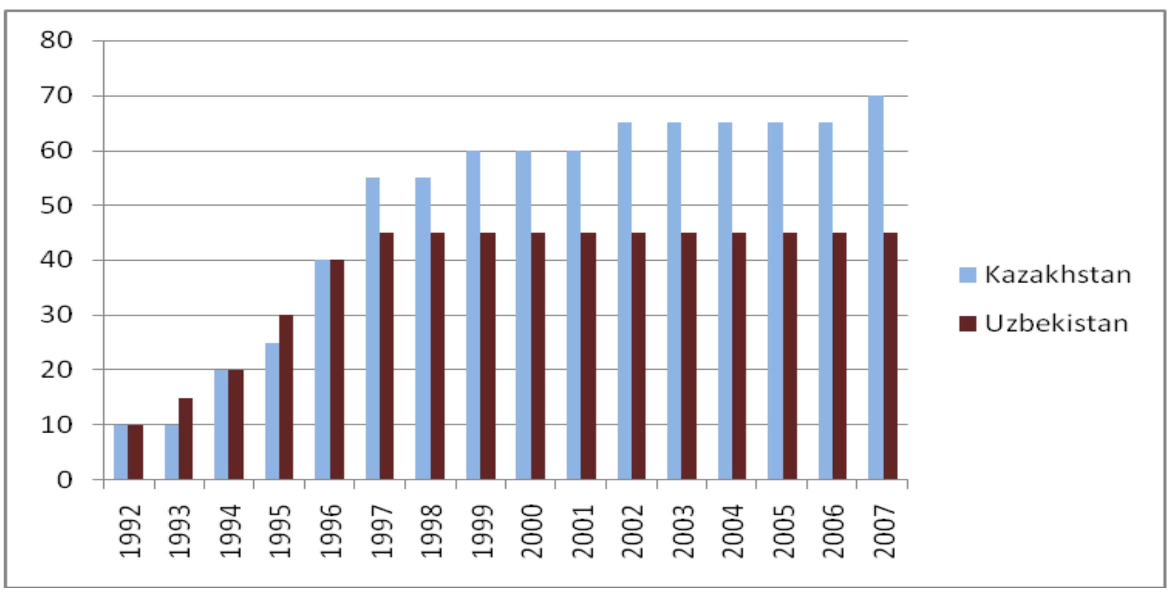


Table 12: Private Sector Share in GDP (%)[98]



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[97] World Bank Indicators, available at http://ddp-ext.worldbank.org.ezp-prod1.hul.harvard.edu/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=6, accessed on Jan 16, 2009

[98] EBRD Transition Reports, 1995-2007