Government-Business Relations in Central Asia: Approaches to Comparative Analysis[1]

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1. Introduction

The relations between government (politics and public administration) and enterprises obviously belong to the main determinants of economic performance in most countries: government-business relations drive both economic policy decisions and corporate strategies. The post-Soviet countries of Central Asia differ substantially in terms of government-business relations implemented; these differences on the one hand, are endogenous to the chosen reform strategies, but on the other hand, influence the further institutional changes. However, in order to understand the influence of government-business relations on economic performance, it is necessary to develop an adequate theoretical framework. The aim of this paper is to provide some elements of this analysis, which should then be illustrated using a case of comparison of two Central Asian countries – Kazakhstan and Uzbekistan.

Obviously, in case of Uzbekistan the term "business" should be used with caution, since the country basically did not implement any large-scale privatization and restricted access of foreign investors, there seems to be no clearly defined "private interest" noticeable in economic policy decisions. However, there are exceptions even to this rule; moreover, even a centralized economy can develop a system of informal bargaining between enterprises and bureaucrats (or, better, between bureaucrats in charge of enterprises and bureaucrats in charge of governmental agents). On the other hand, Kazakhstan obviously has a large and influential business community, which may be of great interest for the analysis.

This paper proceeds as follows: the next section provides a general structure of the analysis of government-business relations. Then I look at three main aspects of influence of government-business relations on economic performance: quality of institutions (through

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intended design by incumbent and unintended consequences of redistributional conflicts) and institutional incongruence, describing each problem in a separate section. Finally, the last section gives a brief account of the specifics of government-business relations in Kazakhstan and Uzbekistan as factors of institutional development in these countries

2. Institutional quality and institutional consistency

Basically, the models of government-business relations include two main components: first, the *formal rules* governing the degree of public intervention in the economic decisions of enterprises (both privatized and state-owned), and second, the *informal interdependence* between political, bureaucratic and business groups. Hence, there are two distinct analytical perspectives, which could be applied. First, one can focus on the *content* of the government-business relations, considering both formal and informal components "as a whole". From this point of view formal and informal aspects of government-business relations models can be more or less important, and hence, deserve more or less consideration in the analysis. Second, however, one can specifically look at the *contradictions* between formal and informal institutions as a source of incentives of public officials and businesses. As I will try to argue bellow, the conclusions following these two approaches may significantly diverge.

A reasonable starting point for the analysis of *content* of government-business relations is the framework of Acemoglu et al. (2005), which assumes that differences in political institutions and resource endowment generate different de facto and de jure political power of various social groups involved in institution-building process. These power differences cause the changes in economic and political institutions, which, in turn, determine the changes in resource redistribution and economic performance. The crucial elements of the system are therefore political institutions, resource endowment and relative power as their expression. The stability of institutions is partly explained by the distribution of de facto power: more successful actors under the current institutional framework are also more influential in terms of design of economic institutions and therefore are able to reproduce their position. However, the approach does not exclude political changes in society.

Hence, different models of government-business relations could be defined in line with Acemoglu et al. in terms of different de facto power of business or governmental actors, determined by political institutions and resource endowments. The variation of institutions and endowments is interesting if it is able to explain the differences in bargaining power. Since I deal with weakly formalised relations between governments and businesses, I focus primarily on de facto power (indeed, de jure power of businesses to influence governmental decisions does not exist or is at least very rare in all three countries). In order to distinguish between different government-business relations models I apply directly the differences in power asymmetry, because it makes the reduction of (potentially) high variety of political institutions and structures of actors to one single variable possible. The idea of power asymmetry between business and political actors however requires clarification. It always applies not to the multitude of firms and political actors, but to small privileged groups (e.g. the largest corporations and banks and the presidential administration).

Thus the general idea of "business actors" and "political actors" used in this paper simplifies the reality (although it can probably also be helpful to understand the dynamics of institutional changes). The difference between business power and political power could be negligible in terms of economic outcomes if there exist no costs of corruption and subsidies (Shleifer and Vishny, 1994). The aim of "catching up" reforms, however, is exactly to make corruption relations less attractive for officials, citizens and corporations (hence, increase the alternative cost of corruption as opposed to legal problem-solving procedures) and to harden budget constraints of owners of privileged firms (either through stronger market discipline or control over public household), at the same time increasing corporate profits (through transaction cost reduction). Therefore in a world of non-zero costs of corruption and subsidies (even more: where costs of corruption and subsidies are endogenous) the allocation of power between political and business actors becomes important and can influence the results of institutional transformation.

Unlike the original approach of Acemoglu et al., I focus on two channels of influence of power asymmetries on formation of economic policies. The first is the ability of powerful actors to shift policies (and also, given the still instable legal order of post-Soviet countries, formal norms) in their favour. This is for example the core of what one may call "neorealist" approach to institutional change (Amable and Palombarini, 2009). However, institutions and policies often originate not only from intended design by the government, but also as a by-product of power struggles. The original concept of institutions as "unintended results of intended action" can be traced back to Scottish moral philosophy and was extensively developed by the Hayekian school in economics. This problem also is discussed by Knight (1992): he considers societies, where shifts in technology or resources lead to conflicts of social actors over power, and shows, that the institutions appear unintentionally as a consequence of these distributional conflicts. In the post-Soviet world significant power shifts come from international expansion of corporations, international political competition between states or elections, which can initiate a wave of conflicts between political and business actors. However, the paper implies a plausible assumption, that initial power structures influence the structure of state-business conflicts.

Since Acemoglu et al. discuss long-term trends, they assume political institutions as relatively stable. From this point of view it is necessary to incorporate the influence of government-business relations models on political and on economic changes in the analysis, while the latter are important for this paper because of their influence on economic policy design. The general logic of the paper is to explain policy choices by specifics of government-business relations; however, the reverse logic is also possible and therefore government-business relations and political-economic development co-evolve, influencing each other. Indeed, changes in government-business relations belong to proclaimed aims of reforms in all post-Soviet countries. For the early stage of transition or for countries without large private business sector, we could probably describe only a proto-model in form of relations between different groups of *nomenklatura* controlling different assets. For the late stage of transition one could assume a certain model of government-business relations as present at the initial point of the reforms (which, however, in turn also affects economic and political transformation).

3. Government-business relations and institutions: three channels of influence

3.1. Institutional design by incumbents

As already mentioned, there are two main channels of influence of business interests on economic policies: direct institutional design and indirect consequences of redistributional conflicts. It is clear, that in the first case the ability of business to influence governmental decision-making depends upon its relative power. The direction of influence is determined by the motivation of the actors. To start with, assume that the business groups have substantial ability to influence political decisions – a statement relevant for many post-Soviet countries (but somewhat critical for Central Asia). In this case it is possible to distinguish between two lines of argumentation. Naturally, both approaches reflect certain aspects of reality, but their relative importance is the crucial issue.

The first approach argues, that in the CIS private actors generally prefer less efficient institutions and therefore support existing “institutional trap”. Libman (2007) surveys the main arguments in favour for demand for bad institutions: redistribution, deficit of vertical trust or learning costs. First, the use of inefficient rules can be relatively profitable for groups benefiting from redistribution, if the rents are higher, than the losses from transaction costs. Since normally these groups possess a lot of political power, they can effectively block any improvements of the quality of institutions. Even if political reforms are mutually beneficial, social groups can still fail to achieve consensus to support them because of conflicts over the distribution of potential benefits (Fernandez and Rodrik, 1991). Second, if individuals have always suspected their government, any change of institutional environment is considered to be for the worse than the existing state, and the actors support present, and not better institutions, or consciously organize their activity through informal channels (to avoid government's attention). Third, it is possible, that the sunk cost (i.e., learning costs, which can pay off only under a specific institutional environment) are higher, than the gains from better institutional environment, and individuals decide not to change the status quo, or, at least, not to invest in political activity to improve the situation.

An alternative approach focuses on the demand for good institutions by private businesses. It accepts the existence of demand for bad institutions at an early stage of transition, but agues, that economic development leads to a rise in demand for transaction-cost-efficient rules of the game. This argument is very much in line with the basic idea of the early new institutional economics of endogenous changes of property right regime in turn of economic evolution (North and Thomas, 1973). Polishchuk (2002) and Runov (2003) distinguish among several factors of change of business actors' attitude: the counterproductivity of redistribution struggles in case when "nothing is left to steal", the need for investments in order to replace the amortisation of assets created in Soviet times, demand for transparent standards for corporate governance and concern over reputation on global markets. Internationalisation increases the business legitimacy, its independence from the government and its bargaining power in government-business relations, and makes transparency, better protection of property rights and clear rules of the game more attractive for business groups (Heinrich, 2003). Finally, CIS countries start experiencing a "change of generations" in business management, when "founders" of corporations move to the pure shareholder position and delegate their authorities to managers, and are therefore interested in the protection of their property rights – a process, which, according to several reports, is reversed by the current crisis (when the companies start cutting hired management and replacing them by shareholders in order to optimize the cost structure). Hence, private businesses are no longer interested in the preservation of inefficient equilibrium and support economic changes.

The simple existence of demand for bad institutions in the early 1990s is hardly debated in the modern literature. Nevertheless, the account of possible changes of business preferences remains one of the key issues for transition studies. Havrylyshin (2007:17) refers to this discussion as "transition inevitable" and "transition frozen" school of thoughts and claims, that "the debate … will certainly go on for some time to come". Anyway, depending upon the answer to this question, two alternative approaches could be deduced. The first is that the demand for good institutions theory assumes *important changes in business' preferences towards good institutions* at later stages of transition as opposed to the early asset-stripping period: private corporations become interested in improvements of institutional environment. Hence, *improving the quality of institutions* is possible if business groups are powerful. Similar results could be expected if the driving force of institutional transition is the powerful multinationals, which may be free from the demand for bad institutions bias. According to the second approach, since business still prefers bad institutions, the main source of institutional innovations is the state (i.e., political actors), which forces private businesses to accept new rules (if it is able to do so). In this case, however, political economics considerations should be taken into account. Analogous to the "demand for bad institutions" vs. "demand for good institutions" contradiction, one can formulate the "autonomous government" vs. "rent-seeking government" contradiction. The impartial government approach claims that relatively strong government is free from potential interest groups pressure and hence produces better institutions. The particular definition of impartiality is subject to debate: the older view focuses on the *independence* of government from the redistributive desires of interest groups, which makes it able to implement economic reforms (cf. Afontsev, 2000, for the description and critique of this approach), while the more recent ideas focus on *impartiality* of the government in the long run (Rothstein and Teorell, 2008). The opposite point of view claims that governments which are independent are rarely impartial and usually just use their power to extract rents. Even in this case powerful government is able to trigger better institutions, if one follows the logic of the "stationary bandit" argument in the sense of McGuire and Olson (1996), i.e. existence of higher benefits from economic growth, than from more intensive redistribution.

3.2. By-products of power struggles

The idea that the property rights can spontaneously emerge from anarchic environment has been one of the main subjects of the modern economics of conflict (e.g. Grossman, 2001 or Hafer, 2006) and, as already mentioned, could be traced back to the Hayekian ideas of spontaneous evolution (Beaulier and Prychitko, 2006). From empirical point of view it has one particular advantage: in order to explain institutional changes as by-products of power and distributional conflicts there is no need to introduce strong assumptions on the motivation of actors, like in the discussion above. In fact, one can even assume that both political and business actors are unwilling to support economic reforms, which, however, still take place as an "unintended result of intended action". Since the preferences are never directly observable (and even revealed preferences based on observations of choices are difficult to deduce in intransparent political settings), the analysis of by-products of power struggles has clear benefits for research. Nevertheless, some conclusions can be made regarding the potential structure of government-business relations models.

The most evident factor able to influence the outcomes of state-business conflicts is the instruments of conflict used by different actors. Instruments used in state-business conflicts can be divided into two groups. First, actors apply "traditional" problem-solving instruments like internal negotiations, administrative measures and bargaining, borrowing them from the old Soviet "administrative market". Second, "alternative" instruments include use of courts and legal procedures. The first group of instruments supports inefficient institutions, even if actors are trying to change it. The alternative instruments also provide no guarantee of changes, but at least open a window of opportunities for transition. The two major positive by-products of alternative instruments include: (1) actors get used to "new" instruments (thus their application reduces learning costs for better institutions and "demand for bad institutions", and therefore creates new behavioural routines) and (2) permanent application increases the quality of "new" instruments through knowledge accumulation (e.g. legal procedures or parliamentary elections). "Alternative" instruments are risky (or, at least, are perceived as risky), and that is why Libman (2005) assumes that only a powerful actor is ready to use alternative methods instead of traditional "hidden bargaining" instruments. On the other hand, Schattenschneider (1960) argues, that the weaker party in political conflicts is more interested in attracting additional participants (or socialising the conflict), which is exactly the case when alternative instruments are applied.

3.3. Consistency of institutions

. From the point of view of the **consistency** of formal and informal institutions, the government-business relations models can be described in terms similar to the concept *institutional complementarity*. The original notion of institutional complementarity in the comparative political economy, however, mostly refers to the combinations of different formal institutions governing different social arenas (say, labor market, firm hierarchy, educational system etc.). In case of informal institutions the situation is more difficult, because they usually “share” the arena with formal rules. Hence, consistency of institutions may imply that

- institutions mutually reinforce each other in terms of incentives set for agents and informal institutions increase the strength of formal rules (defined in terms of enforcement and stability, cf. Levitsky and Murillo, 2009),
- the formal and informal rules divide the domain of application in a form of a “division of labor among institutions” (Leipold, 2006) in a way, which leads to their mutual survival (though it may, actually, imply incentives for *different* choices in similar situations on different arenas – Helmke and Levitsky (2004) refer to “accommodating” informal institutions) or
- there exists a division of labor among institutions over time: for example, in the period of weakening formal institutions informal rules ensure the “survival” of the conditions, resulting in the replication of old formal structures (see also Libman, 2008).

One should notice that I define consistency of institutions not in terms of efficiency, but in terms of survival of (combinations of) institutions. However, it is reasonable to claim that the inconsistency of institutions, i.e. if formal and informal institutions directly contradict each other, so that the formal institutions cannot be fully enforced (Gruževaja, 2005) or are misused (Polishchuk, 2008, 2008a) per se generates additional costs for actors. It is easily possible to imagine a trade-off between a stable combination of inefficient institutions and institutional reform, creating better institutions but causing additional costs through inconsistency. The concept of “second-best” institutions (Rodrik, 2008) targets exactly this trade-off; the problem is of course that the trade-off may easily imply corner solutions. The costs of inconsistency may also be related to instability (see Peregudov, 2008, for the discussion related to government-business interaction in Russia) of institutional combinations.

The problem of consistency is obviously important for government-business relations. Basically, both formal and informal rules may set a certain balance of power between politics, administration and business, as well as specifically restrict the parties from using certain forms of intervention and instruments of influence. However, the rules set by formal and informal institutions may differ substantially. For example, while formal institutions may specify clear restrictions on interventions of government in economic affairs, informal institutions may as well construct a de-facto hierarchical structure, where businesses are forced to seek support of specific groups in politics and bureaucracy. A more interesting case is that even in case the government has de-jure complete authority over business decisions, de-facto this formal hierarchy may co-exist with a sophisticated system of informal bargaining. For example, the formally highly hierarchical economic system of the Soviet Union (for a comprehensive review see Lück-Jarczyk, 1991) slowly transformed itself after the end of economic growth of the 1950s and softening of repressions into a system of “administrative market”: the hierarchical planning was substituted by a de-facto “iterative” process where all levels of decision-making process bargained over the final formulation of plans, which became ex post representations (rather than ex ante guidelines) for economic activity. Even the most powerful agents failed to “enforce” their will in this bargaining system (Naishul, 1991, 1992, Kordonskiy, 2001).[2] This system was complemented by a network of horizontal relations between enterprises, which often involved interaction of several hierarchies and created de-facto property rights (mostly in form of “minus property rights”, based on very low punishments for abuse of “people’s” resources, see Timofeev, 2000) and increasing autonomy of regions (in particular, Southern republics, see Furman, 2005) and businesses and governmental agencies (de-facto privatization, see Naishul, 1995).

The Soviet administrative market is interesting, because it demonstrates the trade-off between consistency costs and effectiveness of the overall system mentioned above. On the one hand, the administrative market (as well as, to a certain extend the shadow economy) was crucial for the survival of individuals and families in an economy of deficit and the overall adjustments in the Soviet economy, overcoming the unavoidable deficits of hierarchies. More importantly, the administrative market served as an institution allowing entrepreneurship (in the Baumol’s sense) and played a crucial role in development of new behavioral patterns necessary for further transition (which, in fact, contributed to the development of the Russian market economy in the 1990s, as in case of barter trade). However, the administrative market was based on inconsistency between formal and informal institutions: it was costly at the Soviet period (in terms of efficiency of resource allocation at the administrative market, which was heavily influenced by formal status in hierarchies) and supported the development of other patterns, which actually contributed to the problems the post-Soviet economies experienced after the collapse of the Soviet Union: the de-facto privatization of governmental agencies, which continues to plague the Russian economic system in spite of all power shifts, soft budget constraints (Shastitko and Tambovtsev, 2000) and the strong preference of informal economic ties to a certain extend originated from the administrative market. Hence,

[2] One should notice, that unlike the shadow economy (which also flourished in the Soviet system), the administrative market was not just a “market economy behind the glass walls” of the hierarchical plans, if one may use the De Soto analogy, but rather a system spreading over the whole Soviet economy. It is not surprising that the idea of the administrative market was initially based on the observations of the Gosplan activity (Naishul, 2004)

the administrative market, which once evolved to overcome the restrictions of hierarchical planned economy, turns out to be an institution preventing further evolution through knowledge accumulation in the new environment, thus hampering one of the main goals of transition (Colombatto, 2002).

4. Government-business relations in Central Asia

4.1. Kazakhstan

After developing a theoretical model encompassing three main components of government-business relations, in what follows I will try to apply the main logic of the model to the development of two main Central Asian countries. I start the discussion with Kazakhstan. To start with, it is first important to notice that the government-business relations in this country passed two main stages of development. There is no clear separation between them; in fact, elements of the second stage started to accumulate after 2003-2004. At least from the formal point of view, Kazakhstan belongs to the countries implementing consequent liberal reforms and abolishing most forms of public control over economy. In fact, the privatization and deregulation in Kazakhstan was even broader than in other countries of the CIS, for example, with respect to banking system, power utilities and housing sector. So, from the point of view of *formal institutions* Kazakhstan achieved a significant progress in the development form the Soviet-type hierarchical relations to the restricted role of the government in the economy (cf. Libman, 2003). Moreover, Kazakhstan seems to be unique in the post-Soviet space (at least, among larger countries) from the point of view of establishing favorable conditions for foreign investors, with huge success in terms of attracting FDI (cf. Libman and Ushkalova, 2009).

However, while the formal government-business relations model differed substantially from that existing in Russia or in Ukraine, the situation in terms of informal power distribution was quite different. Kazakhstan actually established a regime with two separate models of government-business relations. On the one hand, in spite of privatization and liberalization effort, Kazakhstan developed a large segment of privileged domestic business groups (mostly controlled by large banks) with strong ties to government (even more specifically, to the president Nursultan Nazarbaev and his family). The dependence of large business from the governmental support was even stronger than in, say, Russia or Ukraine, due to greater power concentration in the office of Nazarbaev. However, at the same time the government had to interact with large multinationals from developed countries, which received privileged treatment. The history of Kazakhstan was full with attempts to “re-write” the rules of the game by individual bureaucrats and politicians on central and regional level; however, until early 2000s foreign corporations still enjoyed significant influence on the governmental politics.

Both models should be considered separately in terms of their influence on institutional development in the country. The relations of political elite with privileged domestic business groups were hardly different than those existing in other countries of the post-Soviet world in terms of demand for bad institutions at the early stage of transition and unclear shifts at the latter stage when business groups from Kazakhstan matured in terms of wealth accumulation and international expansion. Like Russia or Ukraine, Kazakhstan experienced a number of conflicts between the government and the wealthy businessmen, which were lost by the business groups (in particular, the Mukhtar Abliazov deal and the Galymzhan Zhakianov deal in the 2000s). However, there is no evidence that business resolved to "alternative" channels of influence (like it happened in Ukraine), on the contrary, the Abliazov conflict was resolved through a typical undercover agreement (with Abliazov appointed president of one of the largest banks in Kazakhstan, TuranAlem; interestingly, he lost this position during the re-nationalization of the bank during the crisis of 2008/09, to a certain extend, setting a mark of final transition between models of government-business relations, which shall be discussed in what follows). The impact of multinationals on reforms is not unambiguous, combining elements of transferring better practices with negative convergence and active use of rent-seeking (cf. Libman and Ushkalova, 2009).

To conclude, the models of government-business relations in Kazakhstan seem to have questionable efficiency in terms of their content (though probably the stronger presence of multinationals was at least *relatively* a positive factor explaining the reform progress in Kazakhstan as opposed to other post-Soviet countries). It is possible to claim that, as in other post-Soviet countries, government-business relations at least partly contributed to the *absolute* deficit of institutional quality (in spite of possible relative improvements). The interrelations with domestic business seem to be obviously plagued by the inconsistency costs with respect to formal and informal institutions. The situation with multinationals is, once again, less obvious, because they also had a specific formalized body to implement the lobbying activity (the Foreign Investors Council), but the inconsistency costs may also have been present.

It is probably possible to relate the inconsistency costs in this case with the well-known phenomenon of the "transition trap", when the winners of the early stage of transition capture the rents and block the further reform process. The problem of the transition trap is often not just the loopholes in the institutions, but rather the fact that the initially implemented institutions are misused. In fact, any institutional system is imperfect (especially if it is a transplant for another economy, as it was often the case at the early stage of transition) and slowly overcomes its imperfection through trial and error; the transition trap is foremost a blockade of the further adjustments of the initially adopted institutions, if they happen to fail to succeed in a given environment. The early winners were able to succeed at the early stage of transition not just because of the misuse of the new institutional framework (there are of course examples of this group either – like financial pyramids of the mid-1990s, which existed in most post-Soviet countries – but they usually disappear relatively fast), but because their informal status (say, connections to public officials) granted them the opportunity to explore these loopholes. It is exactly the combination of *new formal rules* and *old informal power*, which provided them the position to obtain rents. The stronger the discrepancy between formal and informal rules is, the higher is the threat formal institutions are misused and the higher are the costs of transition trap. Of course, transition trap also requires specific informal rules (those granting high power to individual actors); so, transition trap is in fact a combination of inconsistency and content of informal institutions.

However, in the recent years both models started to change dramatically. On the one hand, the government started a slow *re-nationalization process*, which was may be less obvious than in Russia, but still significant. Second, the government clearly changed its attitude towards foreign investors: instead of privileged treatment the new aim was to reinstate the control over attractive assets. Though the first successful re-nationalization act was implemented already in 1997, when the government regained control over the nuclear industry (Kazatomprom), it was not until mid-2000s when the re-nationalization affected the most attractive oil and gas industry. Libman and Ushkalova (2009) document the main steps of re-nationalization and increasing problems for foreign investors in modern Kazakhstan. The economic crisis 2008 obviously supports the nationalization trend: the banking system of Kazakhstan (relatively more developed and also better integrated in the world economy) was hit by the crisis, and the government had to partly re-nationalize several large banks, including People's Bank, TuranAlem, Kazkommerzbank and Allianz Bank. Of course, the question remains whether this increase of public control at the turbulent times will ever be withdrawn? Russian experience from the banking crisis 2004 shows that economic turbulences can be used to support the re-nationalization process.

The shifts of the power balance in the government-business relations obviously affects not only foreign investors, but also domestic companies (as the example with Mangistaumunaigaz shows), however, since the politics and bureaucracy has already had a significant impact on domestic business, the changes in relations with multinationals are more pronounced. One could probably claim, claim that the re-nationalization trend is still relatively inconsistent: the attacks clearly focus on individual investors and let others (in spite of possible violations of regulation potentially usable for re-nationalization purposes) out of sight (Smirnov, 2008b). For example, in August 2008 Kazmunaigaz and Gazpromneft acquired 51% and 49% respectively of Mangistaumunaigaz; in this case re-nationalization was clearly related to the conflict between president Nazarbaev and Rakhat Aliev, an influential politician (and former son-in-law of the president) currently exiled to Europe and sentenced in Kazakhstan to a 20-years imprisonment. Generally speaking, the processes in Kazakhstan resemble very much the re-nationalization wave in Russia in mid-2000s, although the scope of public control in Kazakhstan seems to be smaller than that achieved in Russia (on the other hand, Russia was less liberalized in the first place). What is, however, specific for Kazakhstan, is the new infrastructure for public control over assets. The state owned shares in all sectors were consolidated within the Samruk holding group under direct control of the president (in Russia there is a number of state-owned enterprises with normal legal status, as well as so-called public corporations controlled by the president) created in 2006. Samruk received the public stake in telecom, oil and gas, power utilities, postal services and railroads. The holding officially does not intervene in the operating decisions of companies, however, does make strategic decisions (Smirnov, 2007). In 2008 Samruk was merged with the state-owned development fund Kazyna. Anyway, it is difficult to clearly identify the effects of the shifts on institutional quality: on the one hand, it reduces the possible demand for good institutions from private sector, but on the other hand, this demand has already been relatively limited (even, as already shown, in case of foreign investors). There are anyway no reasons to expect any positive institutional changes; what is more likely is that the re-nationalization initiates a new redistribution cycle in the national economy.

Moreover, re-nationalization may to certain extend decrease the inconsistency costs, since it reinstates de-jure public control over business and centralizes the governmental shares (thus reducing the opportunity for uncoordinated rent-seeking of individual groups within the public sector of the economy). From this point of view re-nationalization is certainly a way to "exist" the transition trap (though not through economic opening up and diversification, as Samson et al. (2007) expect for Kazakhstan). It is, however, unlikely that this reduction will compensate for increasing rent-seeking, in particular if the world commodities markets become less favorable for Kazakhstan (as the current development seem to be). Once again, it is a question of corner vs. interior solution in the trade-off between inconsistency costs and inefficient institutions from the point of view of their content. Moreover, as demonstrated above, personal agendas and redistribution may still make the current re-nationalization a good source of rent-seeking (for example, in Russia the initial reduction of inconsistency costs through re-centralization of economic and political life turned out to be a huge source of new rent-seeking and in fact just replace the old inconsistency with a new one (similar but not identical to the administrative market type described above), see Gudkov, 2007). It may as well happen in Kazakhstan.

Finally, the most astonishing thing is that the current changes at least to a certain extend are an *outcome* of government-business relations of the 2000s. In fact, the re-nationalization wave is certainly a good example of commitment problem often present in government-business relations. By investing in Kazakhstan multinationals at the same time support and strengthen the existing regime (at least, indirectly through improving economic situation, but also directly through participating in corruption networks and contributing to the formation of international legitimacy). In a phase of high commodity prices even significant expropriation threat still allows profitable investments; hence, businesses cannot credibly commit to "punish" government in case of expropriation. On the other hand, given increasing political power of the regime, the political elite have an increasing incentive to appropriate the investments. Kazakhstan is a very good example supporting this claim, because, unlike other countries where similar re-nationalization waves were observed, the policy shift happened without any leadership changes. However, it implies that given the demand for good institutions in the early model (with relative power on the side of multinationals) was not high enough, the political-economic system was not "pushed out" the old inefficient equilibrium, and hence, multinationals created the basis for their own demise.

4.2. Uzbekistan

As already mentioned, Uzbekistan basically maintained the old hierarchical structure of economy. Although the beginning of the 1990s witnesses a rapid small-scale privatization, which at least partly implied legitimization of previously underground activities and administrative market (Spoor, 1993), the government still maintained control over the largest enterprises and the most attractive assets (which, in fact, constitute the nature of government-business relations). Moreover, in 1996 Uzbekistan introduced severe exchange controls restricting private economic activity across the borders, thus even going back in terms of economic liberalization (cf. Pomfret, 2006). Government holds direct or indirect stakes in almost all medium and large enterprises, which operate within the framework of numerous public holding companies, which often have de jure or at least de facto veto power in the corporate decisions. State and business are "fused at almost all levels" (Melvin, 2004), and the degree of state capture by the business is extremely low as opposed to other transition economies (Hellman and Schankerman, 2000). Uzbekistan has also extremely low acceptance of privatization among population even among other post-Soviet countries with their huge legitimacy problems for property rights (especially those of large business, cf. Kapelyushnikov, 2008).

A business elite able to counteract or to challenge the authority of the government (even in extremely limited forms and finally unsuccessfully, like in Kazakhstan), did not appear in Uzbekistan (Serra i Puig, 2007). The few wealthy entrepreneurs in Uzbekistan are closely related to the president (for example, president's daughter Gulnara Karimova, is claimed to have business interests in telecom, gold-mining (Collins, 2006:271), as well as retail, beverages, construction material, media and tourism. Further important business groups (according to of the Eurasian Home database[3]) include that of Mirabror Usmanov (former minister of trade of Uzbekistan at the Soviet times and vice prime minister: food trade, retail, banking and restaurants), as well as of Gafur Rakhimov (transportation, automotives and textiles) and Salim Abduvaliev (metals), while the latter two groups apparently do not have formal claims on assets (which are state-owned), but rather "control financial flows" (as the Russian oligarchs in the very early stage of transition used to do).

To conclude, Uzbekistan is an extreme example of power concentration at the side of the politics and administration, providing huge opportunities for rent-seeking. Of course, even in Uzbekistan there seem to exist fields where foreign investors had a substantial influence on economic decisions. Troschke and Zeitler (2006) claim, that the companies with foreign shareholders are less dependent from governmental support in Uzbekistan. Even more, Gilmore et al. (2007) provide an example of British American Tobacco, which controls the privatized tobacco industry of the republic and is one of the largest (if not the largest) foreign investors. According to their study, BAT was successful in influencing the tobacco excise policy, in particular, reducing the excise and creating a system benefiting its brands and putting the competitors at a disadvantage. Hence, even in this centralized system there is some place for private rent-seeking. However, it is certainly restricted to non-critical industries.

This model of government-business relations provides substantial opportunities for rent-seeking of public officials. There is certainly no evidence that the government used its

[3] Located at www.eurasianhome.org; details are provided only in Russian version

“independence” in order to foster institution-building. However, the case of Uzbekistan is particularly interesting from the point of view of consistency costs. High centralization seems to be more consistent with the informal institutional framework. It is possible to claim that the lower inconsistency costs at least contributed to the “Uzbekistan economic miracle” in the early 1990s, when in other countries pursuing faster reform strategies the gap between formal and informal institutions was huge. However, informal institutions (although they are highly persistent) *do* change, if there are significant shifts in economic environment; thus one can hypothesize that the gap in “fast” transition countries became smaller in the early 2000s, thus providing them a relative advantage. It is especially important, because it would be too simplified to assume that the inconsistency between formal and informal institutions in Uzbekistan simply does not exist: on the contrary, as already demonstrated, the de-jure highly centralized and hierarchical system was used by a small number of entrepreneurs to extract rents. From this point of view Uzbekistan seems to reproduce the patterns of the Soviet administrative market with two main exceptions. First, traditional clans become important political-economic players establishing their clientele networks and creating the “tacit division of major industries and sectors” (Gaman-Golutvina, 2007). Second, even limited openness and introduction of quasi-market institutions increase enormously the potential for rent-seeking. For example, in spite of formal centralization, individual managers of enterprises seem to have extremely large opportunities for asset-stripping (Reppegather and Troschke, 2006): the de-facto devolution of power is, probably, similar to that in the Russian state-owned sector under Yeltsin.

5. Conclusion

The aim of this paper was to understand how the various forms of government-business relations in Kazakhstan and Uzbekistan could influence the development of institutional framework for market economies in these countries. Kazakhstan experienced significant changes in its government-business relations model: while until recently it combined two patterns of government-business relations (that with relatively weak privileged domestic private business groups and that with strong multinationals), now the re-nationalization process and increasing protectionism reduce the impact and presence of multinationals and increase the role of state-owned companies. In Uzbekistan government remained the absolutely dominant pole in the state-business relations.

The paper looked at two dimensions of government-business relations in Central Asian countries: the content of the models (determined by the preferences of agents and their relative power) and the consistency of formal and informal institutions. From the point of view of the first factor government-business relations in both Kazakhstan and Uzbekistan at least partly contribute to the inefficient institutional equilibrium. In Kazakhstan the domestic business is not really different from that in Russia, thus experiencing the same problems of "demand for bad institutions" and deficit of legitimacy of property rights. Multinationals seem to at least partly support stronger reform progress, but were also involved in corruption networks and were able to profit from the inefficient equilibrium. Current re-nationalization seems to be a substantial source for redistribution and rent-seeking. In Uzbekistan the governmental officials used their power position to extract rents and to support the privileged entrepreneurs.

Both countries are characterized by significant inconsistency between formal and informal institutions. It is probably possible to claim that Kazakhstan with its rapid economic reforms faced higher inconsistency costs in the early stage of transition; however, at the later stage adaptation of expectations and behavioral patterns of private agents seems to have reduced the inconsistency. The re-nationalization trend diminishes inconsistency costs, but they still remain far from zero, and, if re-nationalization is used for redistribution and development of new power centers in the economy, may even increase. In Uzbekistan the inconsistency costs are similar to those of the Soviet administrative market, but are actually higher due to clan structure of society and elements of quasi-market institutions present.

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