

## Uzbekistan

<b>Status Index</b> (Democracy: 1.4 / Market economy: 2.0)		<b>3.4</b>	<b>Management Index</b>		<b>1.5</b>
<b>System of government</b>	Autocracy		<b>Population</b>	25.3 mill.	
<b>Voter turnout</b>	95.1 % (Presidential elections 2000)		<b>GDP p. c. (\$, PPP)</b>	2,460	
<b>Women in Parliament</b>	2.4 %		<b>Unemployment rate</b>	0.6 %	
<b>Population growth<sup>a</sup></b>	2.3 %		<b>HDI</b>	0.729	
<b>Largest ethnic minority</b>	5 %		<b>UN Education Index</b>	0.91	
			<b>Gini Index</b>	26.8 (2000)	
Data for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

### 1. Introduction

The political development of Uzbekistan from Soviet rule to independence is closely tied to its president, Islam Karimov. In 1989, Karimov became First Secretary of the Central Committee of the Communist Party of Uzbekistan, and on March 24, 1990, the Supreme Soviet of Uzbekistan elected him president. He has been the head of state ever since. He has used formal democratic methods such as referenda and constitutional amendments to stay in power beyond the two terms of office originally granted to him. As a result, his position is now secure until 2007.

The period covered in this report corresponds to a period of Karimov's rule marked by political and economic stagnation. The report on the status of economic and political transformation in the country over the last five years concludes that the political system has not undergone democratization. Nor has the planned economy been converted into a functioning market economy, although the political leeway to do so existed. Consolidation of power under Islam Karimov and the strengthening of his authoritarian regime characterized these years. It is worth noting that Uzbekistan had many development alternatives open to it. The standards achieved can be considered a management success in terms of the president remaining in power, but the transformation toward a market economy and democratic political system has failed.

### 2. History and characteristics of transformation

With the fall of the Soviet Union, Uzbekistan, along with the other former Soviet republics in Central Asia, became a sovereign state for the first time. *Perestroika*,

the 1980s Soviet policy of economic, political and social restructuring pushed by Mikhail Gorbachev, reached Uzbekistan late, and in a weakened form.

It is true that in Uzbekistan, as was the case in all of the Soviet republics, political discussion clubs and national movements had formed by the late 1980s and early 1990s. However, these were, with few exceptions, restricted to the intellectual circles of state capitals and the old nomenclature. The Birlik Popular Movement was the only Uzbek organization that succeeded in building a kind of mass movement that supported democratic and constitutional principles. After Uzbekistan achieved independence, the Birlik Popular Movement, and the Erk Party it spawned, became the most important opponents of President Islam Karimov, if only for a short time. Between 1991 and 1993, Karimov successfully quashed the few liberal freedoms allowed during the transition period. Most political opponents had to (and still have to) emigrate or face massive reprisals.

A stable authoritarian regime strengthened its hold on Uzbekistan beginning in 1993. However, terrorist attacks on government institutions and ministries in February 1999 challenged this stability. Although the incidents were never clarified, the regime quickly assumed that Islamic fundamentalist groups were responsible. Indeed a strong Islamic movement did establish itself in the early 1990s in the Fergana Valley, which spans parts of Uzbekistan, Tajikistan and Kyrgyzstan. A minority of its followers pursued the fundamentalist goals of a united Fergana Valley and the establishment of a caliphate.

However, the two leaders of this movement had gone into exile as early as 1992–1993 and later joined the Afghan Taliban. There, they founded the Islamic Movement of Uzbekistan (IMU), the group blamed by the Uzbek government for the terrorist attacks. In 1999 and 2000, scattered groups of IMU adherents entered Uzbek territory over the Tajik mountains with the supposed goal of overthrowing the regime. As a result, Uzbekistan now patrols most of its borders. The leaders of the IMU were killed during fighting in Afghanistan in October and November of 2001.

Since the February 1999 incidents, attacks by the state on practicing Muslims, suspected and actual members of extremist Islamic groups, members of other banned opposition groups, and human rights activists and their families have become commonplace. The battle against Islamic fundamentalism was long part of the regime's rhetoric. Political reforms and the liberalization of society could not be carried out at this point, the regime claimed, because it could destabilize the country. The events of September 11, 2001 made it easier for the Uzbek government to legitimize their policies not only to their own people, but also to the international community.

Likewise, the need to maintain social stability was used to justify the postponement or abandonment of many market economy reforms. Unlike Kazakhstan and Kyrgyzstan, its Central Asian neighbors, Uzbekistan embarked

upon a “controlled” transformation of its economy after it became independent. Initially, the consequences of economic liberalization in Kazakhstan and Kyrgyzstan seemed to validate Uzbekistan’s policies. It soon became clear, however, that Uzbekistan’s economy was still controlled and had not undergone a transformation. Instead, the economy stagnated and remained stagnant for the duration of the report period.

The country is rich in natural resources, including oil, natural gas, gold and other metals. It is still the fourth largest cotton producer in the world. However, its economic situation has deteriorated. For years, official government statistics recorded GDP growth of approximately 4 % annually. Foreign analysts using internationally accepted evaluation methods put Uzbekistan’s average annual growth closer to 2 %. Taking into account the continued high population growth, per capita GDP has actually stagnated.

Even the Uzbek government now admits that the economy has faltered. Delayed reforms, particularly in the areas of monetary policy, foreign trade and privatization, are the main cause of the downturn. Contributing factors include the reduced inflow of foreign currency due to lower world market prices of Uzbekistan’s main exports—cotton and gold—and greatly increased debt redemption. Foreign investors initially saw tremendous promise in Uzbekistan’s consumer market and its well-trained workforce, but escalating corruption and an unfavorable legal framework have led more and more to turn their backs on Uzbekistan.

Today, Uzbekistan is garnering more international attention thanks to its support in toppling the Taliban regime in Afghanistan, its southern neighbor. Offers of economic assistance and knowledge transfer have come from many sides. In particular, the IMF, which had halted its activities in the region due to the slow pace of economic reform, resumed work in Uzbekistan at the end of 2001. The IMF also reached agreement with the Uzbek government on a comprehensive reform program that includes generous follow-up loans from the World Bank and the Japanese government. The main goals of this initiative are money market liberalization and the free convertibility of Uzbek currency.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

After the fall of the Soviet Union, Uzbekistan’s leaders had no real intention of transforming the political regime into a democracy. Indeed, the prevailing structural and institutional forces have actually strengthened the authoritarian regime under President Islam Karimov. There are democratic deficits in every area, including freedom of speech and assembly, free and fair elections and the rule of law. The government also commits flagrant human rights violations.

### 3.1.1 Political organization

(1) *Stateness*: Officially, there are no problems with state identity in Uzbekistan. The government's monopoly on the use of force is generally upheld. It is enforced, often arbitrarily, by an enormous police force and security apparatus. Defining citizenship and who qualifies as a citizen remains problematic, though many members of minority groups, particularly Russians, have emigrated. However, this issue is not publicly addressed. Numerically significant minority groups, especially Tajiks, are discriminated against. More and more often, they are directly or indirectly forced to claim Uzbek identity, lowering minority population statistics.

There is separation of church and state. The political process is secularized. The administrative system is corrupt and nepotistic, though not completely so. Unlike many other ex-Soviet republics, Uzbekistan does fulfill its responsibilities for public order. Public safety and order are ensured through the constant presence of security forces. Civil rights are sharply restricted due to the insufficient commitment of the government to act in accordance with legal norms and its arbitrary application of valid law.

(2) *Political participation*: Local, regional and national elections do not comply with international standards. They are general, but not free or fair. Both the legal foundation for elections (rules governing the composition of election commissions, nomination of candidates and election campaigns, among others aspects) and the actual voting process are manipulated. The people's representatives have absolutely no regard for the principles of an open, competitive electoral process. There are no actors with veto powers or political enclaves in the hands of the military.

It is not forbidden to form independent political and/or civic groups, but arbitrary formal criteria make it very difficult to do so. According to the constitution, political parties are permitted only if they do not criticize the government's policies. There are no independent media outlets. State-run and private media are subject to influence by the government, as well as strong censorship or self-censorship. Thus, there is no freedom of information, speech or assembly. It was only the presence and support of international organizations that allowed a few civic groups, such as human rights and environmental organizations, to develop. The state hinders the activities of these groups in many ways.

(3) *Rule of law*: There is no division of powers. The legislative branch is weak. The parliament meets only twice a year and has more of a declarative character. The country is ruled primarily by presidential decree. A 2002 amendment to the constitution establishes a permanent bicameral Parliament with greater authority to enact legislation. The new Parliament will have its first session after the next parliamentary elections in 2004.

The judicial branch is institutionally barely differentiated from and clearly subordinate to the executive branch at the local, regional and national levels. All important decisions, particularly those relevant to the political process, are controlled by the executive branch and can be blocked using an informal veto right. The perceived level of corruption in Uzbekistan is high; it touches absolutely every area of public life. Fighting corruption is one of the top concerns of citizens, despite the fact that everyone is part of the corrupt system in one way or another. As a rule, corruption is not prosecuted, especially when representatives of political authority are involved.

### **3.1.2 Political patterns of behavior and attitudes**

(1) *Institutional stability*: There are no established democratic institutions. However, the non-democratic institutions are stable.

(2) *Political and social integration*: A socially anchored party system that serves to articulate and aggregate societal interests does not exist. There are a few puppet parties installed by the state, but they do not play any role in social or political life. There is also no autonomous system of trade or labor associations.

The presence and support of international organizations such as the OSCE or the UN have allowed a few active civic groups such as human rights and environmental organizations to develop, some of which are part of a network of associated regional groups. However, the work of these groups is severely hampered by the state apparatus, and group representatives are subject to constant reprisals. As a result, these groups are not well anchored within the general public. Still, the mere fact that such groups exist should be considered a positive sign.

## **3.2 Market economy**

Uzbekistan has made little progress in transforming its economic regime. This is due mainly to the delay in enacting reforms, particularly in areas such as monetary policy, foreign trade and privatization. Contributing factors include the reduced inflow of foreign currency due to lower world market prices for Uzbekistan's main exports, cotton and gold, and increased debt redemption.

### **3.2.1 Level of socioeconomic development**

The lack of reliable statistics makes it difficult to estimate Uzbekistan's level of socioeconomic development using key indicators. The country's level of development provides all citizens with sufficient freedom of choice. In particular, the level of education is high. There is no official record of fundamental social exclusion through poverty, education or gender-specific discrimination, but it is

apparent that the increasing “Uzbekization” of the country is frequently causing significant difficulty for ethnic minorities. They are generally also excluded from important executive positions in politics and business.

As a result, chances for advancement in society are determined by a citizen’s origin. Access to economic resources depends on one’s position in the clan-based social hierarchy.

### **3.2.2 Market structures and competition**

Basic conditions for free market competition do not exist. Dense regulation of the economy, a legacy of the Soviet system, was reduced somewhat, but basic free market competition exists in only a few areas, namely through the development of microenterprises and joint ventures. However, there is an extensive informal economy (black economy) that includes all sectors. The state continues to control and shape the economy in all strategic sectors, especially raw materials and agriculture.

Privatization of large industrial enterprises, demonopolization of a number of industries and the cotton market, and liberalization of foreign trade policies are moving ahead very slowly. One of the most important preconditions for a market economy reform policy, convertibility of the Uzbek currency (the sum), has been announced frequently, but it has only been implemented in certain segments. All banks are in state hands or heavily regulated by the government, and a capital market does not exist.

### **3.2.3 Stability of currency and prices**

The Uzbek currency was devalued several times during the reporting period, resulting in an annual inflation rate of 25 %. According to the IMF, gross foreign debt, consisting mostly of state-guaranteed debt, amounted to about \$4.5 billion in mid-2002. This represents an increase of approximately \$300 million, or 7 %, over mid-2001. Compared with other countries, total debt is still considered moderate. The country is also known as a reliable debtor. However, further devaluation of the Uzbek sum and unsatisfactory export development are causing the GDP-to-debt ratio to deteriorate further. The Uzbek Central Bank is following restrictive financial, monetary and credit policies.

### **3.2.4 Private property**

Property rights and acquisition of property are not sufficiently defined. Privatization of state enterprises only began in 2002, intended as one of the first steps under a market economy reform policy. Yet until today, private enterprises

exist in only a few segments. State enterprises and monopolies dominate the economic landscape.

### **3.2.5 Welfare regime**

The state provides a satisfactory level of health and educational services. In practice, these services are mostly not for free. Due to widespread corruption, low wages and the late payment of salaries, recipients of such services generally have to provide additional compensation. Official unemployment figures are low; actual unemployment, particularly among young men and in rural areas, is likely quite high due to relatively rapid population growth. Unemployment is estimated to be as high as 50 %.

Poverty is spreading in Uzbek society, especially in rural areas. Whether welfare services can or will be provided, depend on the local circumstances and opportunities in every region; in general, no such provision can be expected. Social unrest and protests occurred in 2001 and 2002. Equal opportunity and access to public services are limited. Social origins and contacts determine access to resources. Women are at a disadvantage with respect to income and in access higher education and public office. This is due, however, to the traditional role of women in Islamic societies. The state, on the other hand, is consciously working to counter this perception of gender roles.

### **3.2.6 Strength of the economy**

The opinions of international specialists and Uzbek economists with respect to the Uzbek system's performance vary widely. The wide range of opinions on Uzbekistan's flattening growth has numerous grounds: the multiple exchange rate system still in use; high inflation, which is difficult to measure because of the different exchange rates; the inherent uncertainties in regional economic cooperation; the adjustment problems to be expected with the new reform measures; and the lack of meaningful official statistics. Furthermore, numerous data relevant for estimating future trends are kept secret, making it very difficult to prepare economic forecasts.

In general, one can assume that actual economic growth does not even come close to potential growth. Uzbekistan's wealth of natural resources and its well-educated labor pool could have resulted in a much more positive rate of growth and current account balance.

### 3.2.7 Sustainability

Ecological sustainability is subordinate to economic development and not anchored solidly institutionally. However, in light of one of the world's greatest ecological catastrophes—the drying up of the Aral Sea caused by intensive cotton cultivation—a change in policy is urgently needed. On the other hand, the state provides comprehensive education and vocational training, a dynamic research and technology sector and a viable infrastructure. State investment in both education and training, and research and development is above average in both quality and quantity. The introduction of computerized data processing in many areas of society is another goal of state leaders.

## 4. Trend

(1) *Political regime*: The political regime does not fulfill the minimum conditions for democracy based on the rule of law. Particularly since the 1999 terror attacks, there are fewer opportunities for political participation and the application of constitutional principles.

(2) *Level of socioeconomic development*: According to official figures, development has stagnated or improved only slightly over the last few years. This, however, contradicts what has actually been observed: The population is becoming more and more impoverished. High unemployment, particularly in rural areas, is a major factor, as well as widespread crop failures due to persistent drought and problems caused by poor irrigation practices and infrastructure". This evaluation considers overall development rather than the social exclusion of specific segments of the population. Quantitative figures are to be considered with caution.

(3) *Market economy*: Institutional framework conditions have deteriorated further from an already tenuous positive position. Major reforms, with more than a declarative character, have not been implemented. Small-business development has made only minimal progress. Desperately needed foreign investment has been scaled back. However, the reform program agreed upon with the IMF inspires hope that important institutional forces will be harnessed for far-reaching reforms, including the full convertibility of the Uzbek currency.

(4) *Economic performance*: Uzbekistan's macroeconomic development has not improved. However, because the available data are not reliable, no definitive statements can be made.



## **5. Transformation management**

### **5.1 Level of difficulty**

The level of development must be considered low, according to available data. The population has a comparatively high education level, however. There are latent ethnic, religious and social conflicts that the state is currently suppressing through its monopoly on the use of force. Civic tradition exists in the form of *makhalla* (neighborhood community), a local-level system of self-governance and mutual-assistance, but it is controlled from the top down. Thus, *makhalla* has been essentially absorbed by the state because it serves as an instrument of control, and thus as a way to preserve the current system. The rule of law does not exist according to the criteria of this study. Institutional stability is guaranteed within the limitations mentioned.

### **5.2 Reliable pursuit of goals**

The top priority of all Uzbek state policy is to keep President Islam Karimov in power. All other objectives are subordinate to this goal. Important reforms are not made if they might endanger the control mechanism of the state. The government pursues some long-term objectives, but the objectives do not meet the country's development and transition needs. There are attempts at an economic reform policy, but implementation of reform initiatives is half-hearted or incomplete.

The direction of reform is unclear, except of course for the preservation of the system; the same is true for the concepts and elements of reform, the specific carriers of reform, and the means of implementing reform. However, the government is making an effort to adapt to the changed economic and political framework conditions and introduce reform measures. No statements can be made at this time as to the quality of these policies. The state is the general initiator of reform, but the details of responsibility and jurisdiction are not transparent.

### **5.3 Effective use of resources**

The government uses only a few of the available resources efficiently. Existing resources could be used much more efficiently if necessary investments had been made. The country's resources include exceptionally well-educated workers, most of whom would welcome a more open economy.

Waste of other resources usually occurs in conjunction with prestige projects that glorify the state and its leadership. Reform policies are not effectively implemented, but it should be noted that the government is still engaged in a learning process, particularly in the economic arena. Some public services are provided, including human resource development. Protection of property rights is

insufficient, and markets are barely functional. The country's infrastructure, particularly its transport and telecommunications systems, is at an above-average level of development.

Corruption is one of the most serious problems hindering the efficient use of resources. The state and civil servants are the main beneficiaries of corruption, which is simultaneously protected and encouraged by state-regulated economic and monetary policy. The prospect of losing these privileges is believed to be one of the major obstacles to implementing economic reforms.

#### **5.4 Governance capability**

Leading political actors react to missteps and policy failures by making changes, but such changes are usually limited to replacing personnel. Any changes beyond that are generally not fully implemented. The government often claims that it welcomes reform, but that lower levels of the regime prevent reform measures from being implemented. The dictatorial slant of the regime makes this argument difficult to believe.

There is no doubt that the leadership has sufficient political authority to bring about reform, but fundamental miscommunication between the central government apparatus, regional authorities and interest groups at various levels also seems to be a factor. It cannot be determined which interests are competing or which groups represent these conflicting interests. At least from a formal standpoint, there are no relevant political actors other than the executive branch capable of pushing ahead with economic, political and social reform.

#### **5.5 Consensus-building**

The goals of the major political actor—the government—remain unclear. Many previous reform initiatives were not really implemented. One can at least expect the regime is more likely to pursue the goal of creating a market economy than it is to establish a democracy. Uzbekistan's favorable position in the international community and the support of the foreign donor community makes this a rational probability. Consensus building, by itself, is not the goal. Political actors who criticize government policy are in direct violation of the constitution. Thus, it is those in power, not vetoing agents, who stand in the way of reform. Decision-makers may be split between reformists and hardliners, but such differences in position are not very transparent.

## 5.6 International cooperation

Political actors cooperate to an increasing degree with bilateral and multilateral donors, particularly when such collaboration is associated with increased prestige or concrete economic aid and support. However, because such aid is usually tied to requirements for economic and political reforms, the Uzbek leadership does not always act in a goal-oriented fashion. In the past, many instances of cooperation led to the declaration of certain reform initiatives, but the government failed to implement them. Foreign investors and international organizations turned away, and the country became increasingly isolated.

A similar dynamic is also evident in Uzbekistan's relations with its Central Asian neighbors, which seem to involve more verbal confrontation than collaboration. With the inclusion of Uzbekistan in the anti-terror coalition after September 11, the country has moved back into the international spotlight. The country's willingness to cooperate increased significantly in 2002. That was taken as a positive sign, illustrated by renewed engagement by the IMF and other international organizations.

## 6. Overall evaluation

In view of the starting conditions, current status and evolution achieved, as well as the actors' political achievements (management), this assessment concludes the following:

(1) *Starting conditions:* The starting conditions for transformation can be rated as positive overall. Unlike other countries of the former CIS, Uzbekistan was not forced to deal with state identity problems or violent ethnic conflicts. Only some of the security problems related to Islamic fundamentalism could be quantified with hard data. Though a security risk did exist, this risk was often exaggerated to legitimize state repression aimed at preserving the system.

Taking these limitations into account, the originating conditions can be regarded as rather positive and Uzbek reform policies only as misguided. Opportunities to reform political and economic systems were wasted. Stagnation has been the status quo since the mid-1990s.

(2) *Current status and evolution:* With respect to democratic transformation, the situation has actually worsened. Democratic deficits exist in every area, including freedom of speech and assembly, free and fair elections and upholding the rule of law. This also applies to Uzbekistan's evolution in terms of its transformation to a market economy. With few exceptions, reforms have been anything but genuine and efficient. Significant improvements to the country's structural framework are of the utmost importance, as bilateral and multilateral donors are currently sufficiently willing to invest in Uzbekistan.

(3) *Management*: The verdict on the actors' relative management performance is mixed. Efforts to maintain the system were satisfactory, but also hindered a transformation toward a market-based democracy to date. However, this conclusion cannot be adequately supported, as the preconditions for accurately assessing this factor are lacking.

## **7. Outlook**

The generally negative depiction of transformation underscores the assessments of numerous analysts who believe Uzbek reform policies have failed. Ultimately, the overriding principle of system stability trumped the desire for development and transformation, despite the fact that reform-oriented policy is an available choice in Uzbekistan. One hopes that the political leadership will recognize this and take advantage of currently favorable international conditions. Initial steps in this direction, such as the reorganization of parliament and the far-reaching market economy reform program agreed upon with the IMF, have already been made.

In the current situation, the ultimate challenge lies in bringing about a change in attitudes among the political elite and, less so, among the general population. This will likely only occur with a generational shift. When this will come, and in what form, is unclear. It is possible that a transfer of power will have to occur before any significant reforms can succeed.