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Economic reform and institutional change in Central Asia: towards a new model of the developmental state?

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Economic reform and institutional change in Central Asia: towards a new model of the developmental state?

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Abstract.

Widely ignoring recommendations from mainstream economics, the some Central Asian countries have achieved remarkable economic growth rates since their transformational recession in the 1990s. While Kazakhstan, Uzbekistan, and Turkmenistan have greatly benefitted from increasing world market prices for natural resources, particularly Kazakhstan and Uzbekistan have pursued distinct country-specific policies and built up politico-institutional structures which may have also contributed to bring about economic and social progress. This paper investigates the politico-institutional foundation of these emerging market economies in Central Asia and addresses the question whether or not these market-developing autocracies are on a way to become developmental states with a firm commitment to economic development in the future.

Key words: Developmental State, Central Asia, Kazakhstan, Uzbekistan

Economic reform and institutional change in Central Asia: towards a new model of the developmental state?

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1. INTRODUCTION

For various reasons, Central Asian countries have received increasing attention from the international community, policymakers, foreign investors, and academics during the last decade. Due to its rich resource endowments, the region has become even more important for advanced industrial countries as well as emerging economies. In addition, due to its geographical location between Russia and China, Europe and the Far East as well as in close neighborhood to fragile states and threatened regimes such as Afghanistan and Pakistan, Central Asia has gained strategic importance for the international community.

Especially Kazakhstan but also Uzbekistan and more recently Turkmenistan achieved remarkable economic growth rates under stable, though non-democratic political conditions and the strong political leadership of the respective presidents. The political leaderships in these three countries have widely ignored mainstream Washington-Consensus type recommendations for policy reform. And yet, these countries have achieved remarkable economic growth rates since their transformational recession in the 1990s. While these economies have greatly benefitted from increasing world market prices for natural resources, particularly the Kazakh and the Uzbek government have pursued distinct country-specific policies and built up idiosyncratic politico-institutional structures which may have contributed to bring about not only political stability, but also economic and social progress. This paper investigates the politico-institutional foundation of these emerging market economies in Central Asia and addresses the question whether or not these market-developing autocracies are on a way to become developmental states with a firm commitment to economic development in the future.

Due to the fact that the economic transition process in Central Asia (with the possible exception of Kyrgyzstan) occurs within a non-democratic setting, it appears to be useful to consider the (East Asian) developmental-state model as a conceptual reference point. Based on a short discussion of the institutional underpinnings of so-called developmental states in

Chapter 2, subsequent sections investigate to what extent an appropriate politico-institutional foundation has been emerging in Kazakhstan and Uzbekistan which make market reforms and governments' commitment to economic development credible.

2. THE FOUNDATIONS OF A DEVELOPMENTAL STATE: THE ROLE OF INSTITUTIONS AND GOVERNANCE

Effective market-oriented policy reform and sustained economic growth-cum-development require a government which is strong, i.e. capable of formulating and implementing reform policies, protect property rights, and enforce the rules of market exchange.¹ Within a non-democratic context, such "capable states" (World Bank, 1997) do not frequently occur. In the political-economy literature, the notion of a non-democratic, though capable state is often associated with the concept of the so-called *capitalist developmental state*. The term is due to Johnson (1982), who distinguished a developmental state from both classical market-types economies on the one hand and centrally planned economies on the other. While he conceived the Socialist command economies to act in a plan-ideological way and the Western (regulatory) market economies to act market-rational, he suggested that a developmental state is best described as plan-rational (Johnson, 1982: 18).

The developmental-state concept was inductively developed reflecting the experiences of the fast-growing economies of Japan (especially since the post-war era) as well as South Korea and Taiwan (since the 1960s) in order to emphasize the differences between the market economies in the West, in particular the United States and the United Kingdom, and those in North East Asia.² According to Chang (1999: 192), a state may be called developmental if it "can create and regulate the economic and political relationships that can support sustained industrialization (...) [and if it; Ahrens and Stark] takes the goals of long-term growth and structural change seriously, 'politically' manages the economy to ease the conflicts inevitable during the process of such change (but with a firm eye on the long-term goals), and engages in institutional adaptation and innovation to achieve those goals."

The concrete features of developmental states differ across countries and change through time. But essentially the main characteristics include: (1) stable political rule ensured

¹ Large parts of this section heavily draw from Ahrens (2002).

² See Johnson (1999). Note, however, that the theory of the developmental state has not been exclusively applied to North East Asia. See, for example, the contributions in Woo-Cumings (1999) for applications to India as well as to Latin American and European countries.

by a sufficiently autonomous political-administrative elite that is staffed with the best available managerial talent and that does not accede to political pressures which could impede economic growth; (2) cooperation between the public and the private sector that is guided by a pilot economic planning agency; (3) continuing investment in universal education and policies that aim at a more equitable distribution of opportunities and wealth; and (4) a government, whose members understand the need for market-conforming policies and interventions (Johnson, 1987, 1999).

A key aspect of an ideal-type developmental state is to ensure autonomy of the economic bureaucracy as well as the political elite who are in charge of strategy formulation, actual decision making, and policy implementation. The challenge is to avoid a situation in which policy makers become captured by organizations or individuals who represent influential private business. In order to prevent vested interests from colluding with state officials, institutional arrangements, policy makers' access to financial means, as well as the sources of their political power may play an important role. The fewer funds are provided to the public sector by private actors, the easier it is to ensure the autonomy of policy makers from private interests. The independence of the *economic* bureaucracy is at least equally important. In order to achieve sustainable market-based growth, economic policy must be consistent, show a long-term focus, and exhibit complementary policy instruments. While this holds true for public policy making in general; it is even more essential if a government intends to implement more selective industrial policies. For that reason, authorities with the vision to implement a long-term development strategy need to depoliticize economic decision making. That is why adherents to the idea of the developmental state consider bureaucratic autonomy from social entanglements as a constituent characteristic of developmental states. In these states, depoliticization is facilitated through a separation of reigning and ruling actors. While politicians determine broad policy goals and protect the public administration from vested interests, the bureaucrats are in charge of planning and implementing policies and guiding the economy. Moreover, as Pempel (1999: 160) notes, "technocrats and bureaucrats enjoy disproportionately high levels of power and wield a variety of tools to enforce their will. State actors are also relatively free from major populist pressures, most especially from organized labor and organized peasants."

The organization of, and the incentives for civil servants within, the public sector crucially affect the developmental outcomes of public policies.³ A coherent economic policy

³ See Campos and Root (1996), Evans (1995), Qian and Weingast (1997), and World Bank (1997).

reform requires the establishment of an economic bureaucracy which is able to implement overall macroeconomic policies, enforce private property rights, and autonomously conduct industrial policy measures. Max Weber (1972/1921) proposed a powerful approach to strengthen a state's internal organization, i.e., its capacity to foster market development and economic growth. He suggested that efficient market operations require high degrees of calculability driven by legal rationality. In this framework, the public administration is a central and powerful tool in order to craft a functioning, modern market economy. Such an economic bureaucracy is characterized by duties which are defined according to functions. Civil servants are exclusively devoted to administrative tasks, and they are relatively independent of societal pressures. According to Weber, a government's capability of strengthening and complementing market exchange is enhanced if the administration represents a coherent entity and if bureaucrats perceive the pursuit of public-policy objectives as the most appropriate way to improve their individual well-being. An administration showing a corporate identity, which aligns the individual objectives of civil servants with those of the political leadership, must be able to act autonomously, i.e., it needs to be shielded against the pressures of vested (business) interests.

Bureaucratic professionalism is necessary, but it is not sufficient in order to ensure development-enhancing consequences of economic policies. Further key institutions constituting a Weberian-type bureaucracy comprise the replacement of political appointments or dismissals by performance-based standards in both recruitment and promotion. These standards should be based on impartial and competitive examinations. In addition, civil servants should be provided with adequate opportunities to gain long-term career rewards, and transparent hiring-and-firing rules need to be established. Taken together, all this can improve the expertise in the public administration, help to create commitment, and enhance the effectiveness of administrative action. However, authorities have to give a high priority to education policies in order to generate large numbers of qualified bureaucrats, who will perform well in a meritocratic environment.

These arguments highlight the importance of crafting a strong state with distinct bureaucratic capabilities. However, even an effective economic bureaucracy will produce developmental improvements only if public announcements, political promises, and administrative actions of civil servants and policy makers are conceived to be credible. This insight reveals a weak point in the concept of a strong developmental state. In order to enhance its political credibility, a reform-oriented government of such a developmental state needs to show and document its commitment to long-term economic development, e.g., through

particular public investments in the public education or health sector. Moreover, it can open up the economy and expose itself to the international competition between governments for mobile resources, or it may join international organizations (like the WTO or the IMF) and thereby constrain its available policy options at least in distinct realms of policy making. Such policy decisions, in combination with a relatively autonomous and competent economic bureaucracy, can help to enhance the government's ability to deliver according to its prior policy announcements. But if there is a lack of such institutional safeguards, which bind the government to its promises, a convincing credible commitment will not be achieved. Development-enhancing consequences of economic reform policies are unlikely if the political leadership lacks legitimacy and does not show an encompassing interest in economic and social development. In such a case, the structural features of a so-called developmental state can be easily abused through arbitrary and discretionary government action. Then, a would-be-developmental state may become a predatory state.

3. THE DEVELOPMENT OF THE FIVE CENTRAL ASIAN REPUBLICS AFTER INDEPENDENCE

3.1. The initial conditions of the Central Asian countries and their economic performance after independence

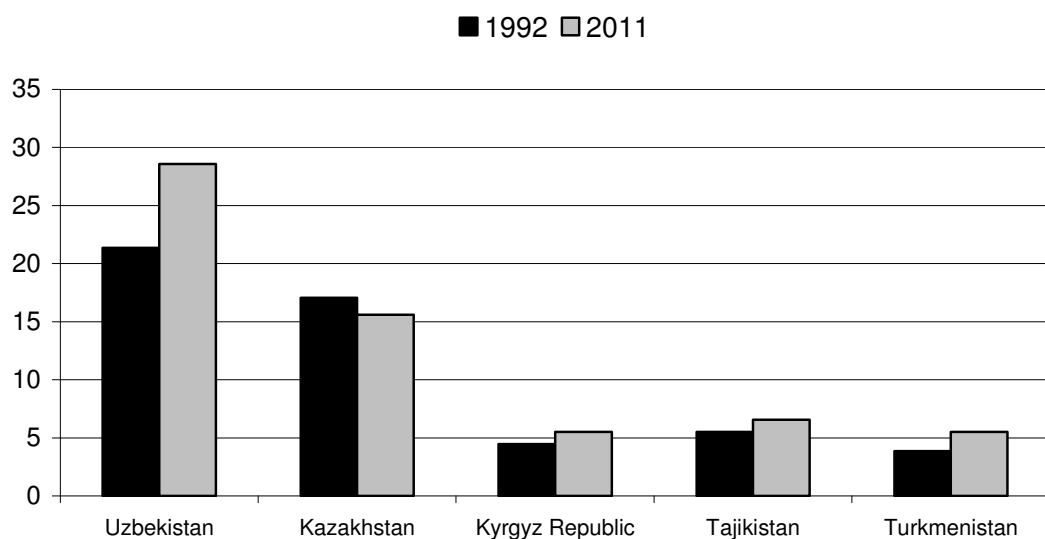
The five Central Asian countries differ from one another in a variety of aspects. However, they also share several characteristics that separate them as a group from virtually all other former Soviet Republics. Apart from a common historical and cultural background, the Central Asian republics also share the trait of having been the poorest and least industrialized parts of the Soviet Union, together with Azerbaijan (Pomfret, 2003, p. 12). All of them are remote from important markets and landlocked (Spechler, 2004, p. 63). Furthermore, they share some political conditions: as Olcott (1992) noted already in the early 1990s, all five republics were essentially forced to become independent when the Soviet Union dissolved. Since the borders of the republics within the Soviet Union had not been defined based on historical entities, none of the five countries had a prior experience as independent nation-states (Spechler, 2004, p. 62). With the exception of Kyrgyzstan, the presidents in the newly independent Central Asian countries all came from the Communist administrative hierarchy (Blackmon, 2005, p. 391; Pomfret, 2006, pp. 73). However, the Central Asian countries implemented quite different

transition strategies. As a consequence of these similar conditions and diverging strategies, Pomfret (2010a and b, 2003) and Spechler (2004), among others, have argued that Central Asian economic development can be considered a natural experiment for the success of different approaches to economic transition.

The similarities between the Central Asian countries are also remarkable. The set of formal institutions that actors in Central Asia faced at the initial stages of transition was virtually the same in all five republics. In addition, the fact that four out of five political leaders had a very similar personal and political background might imply that they had comparable mental models of the world and, in consequence, similar ideologies. Furthermore, one might argue that the similar cultural and historic background of the Central Asian peoples resulted in comparable ideologies of the general public and a similar set of informal institutions. However, this is only true to a very limited degree. Moreover, while the Central Asian leaders faced similar exogenous constraints in terms of governing a newly independent, landlocked country in the same geographical region, the conditions varied sufficiently to explain different transition strategies and economic outcomes to a remarkable degree.

It is certainly true that the Central Asian presidents had considerable freedom of action concerning economic policies and reforms at the beginning of the 1990s (Pomfret, 2010a, p. 450). In particular, the formal institutional environment was essentially put to question as a result of independence and the demise of communism. In this way, it is reasonable to speak of a *window of opportunity* for profound institutional change which existed in Central Asia at this time. However, the differences in constraints faced by political leaders were decisive for the further path of institutional change. A crucial difference, in this respect, was the uneven distribution of resource endowments across the five Central Asian countries. As summarized by Spechler, the smallest countries in terms of territory, Tajikistan and Kyrgyzstan, are generally considered to be resource-poor. In sharp contrast, Turkmenistan and Kazakhstan have abundant resources of oil and natural gas. Uzbekistan's economy has been dominated by cotton since the times of the Russian empire, but also has some resources in natural gas and gold (Spechler, 2008a, p. 39).

Figure 1: Population of the Central Asian countries at independence and today [millions]



Source: IMF (2011).

The differences continue in the area of population. As can be seen in Figure 1, Uzbekistan is the most populous country in the region, followed by Kazakhstan, which has a much larger territory. Kyrgyzstan, Tajikistan, and Turkmenistan are much less populous than the other two republics. Comparing these numbers to the high-performing Asian economies (HPAEs), which have been often considered developmental states, Uzbekistan has about the same population as Malaysia, and slightly more than Taiwan. The three smaller countries have a similar population to the East Asian city states, Hong Kong and Singapore, whereas Kazakhstan ranks between the city states and Taiwan. All other HPAEs have a much higher population (IMF, 2011).

In sharp contrast to the Northeast Asian developmental states of Japan, South Korea, and Taiwan, but similar to the Southeast Asian HPAEs, all five Central Asian countries have an ethnically heterogeneous population. However, a key difference between the conditions in East Asia and the newly independent countries is the extraordinary importance of cross-border migration that has been taking place in Central Asia since the end of the Soviet Union. The importance of migration and the varying ethnic structure between the Central Asian republics has led to important differences in the constraints that political leaders face.

There was much more Russian migration to the northern parts of Central Asia, specifically the Kazakh steppe and the cities of Kyrgyzstan, than to the south. As a consequence, the ethnic structure of Kazakhstan and Kyrgyzstan are to some degree similar

(Hiro, 2009, p. 281). In 1989, there were almost as many Russians as Kazakhs living the Kazakh SSR, both groups comprising somewhat less than 40% of the population, Germans were the thirds largest ethnic group with slightly less than a million persons, making up about 5.8% of the population (Zhardykan, 2004, p. 68). In several regions, Russians outnumbered Kazakhs, in some cases by a ratio higher than three to one (Zhardykan 2004, p. 67-69). As can be seen in Figure 1, Kazakhstan is the only country that lost population since its independence. The main reason for this was the high emigration of ethnic Russians and Germans, which were disproportionately well-educated and skilled (Pomfret, 2006, p. 43).

In Kyrgyzstan, the Russian population only amounted to 21.5% in 1989, and the Kyrgyz themselves made up slightly more than half of the population at this time. The third largest ethnic group was formed by Uzbeks, with around 11%, while Germans only amounted to 2.3% of the total population. While emigration of Russians and Germans also took place in Kyrgyzstan, however, their lower numbers and the higher birthrate in Kyrgyzstan compensated this loss of population (Abazov, 1999).

Table 1: EBRD transition indicators of the Central Asian countries, 1991 and 2000

	Kazakhstan		Kyrgyzstan		Tajikistan		Turkme- nistan		Uzbekistan	
	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000
Large scale privatisation	1.0	3.0	1.0	3.0	1.0	2.3	1.0	1.7	1.0	2.7
Small scale privatisation	1.0	4.0	1.0	4.0	1.0	3.3	1.0	2.0	1.0	3.0
Enterprise restructuring	1.0	2.0	1.0	2.0	1.0	1.7	1.0	1.0	1.0	1.7
Price liberalisation	1.0	4.0	1.0	4.3	1.0	3.7	1.0	2.7	1.0	2.7
Trade & Forex system	1.0	3.3	1.0	4.3	1.0	3.3	1.0	1.0	1.0	1.0
Competition Policy	1.0	2.0	1.0	2.0	1.0	2.0	1.0	1.0	1.0	2.0
Banking reform & interest rate liberalisation	1.0	2.3	1.0	2.0	1.0	1.0	1.0	1.0	1.0	1.7
Securities markets & non- bank financial institutions	1.0	2.3	1.0	2.0	1.0	1.0	1.0	1.0	1.0	2.0
Overall infrastructure reform	1.0	2.0	1.0	1.3	1.0	1.0	1.0	1.0	1.0	1.3

Note: Indicators are measured on a scale from 1 (no reform) to 4.33, with pluses and minuses, e.g., 3+ and 3- are represented by 3.33 and 2.67.

Source: EBRD (2011).

Usually, these two northern countries, Kazakhstan and even more so Kyrgyzstan, are considered to have been the region's faster reformers in the early 1990s (Pomfret, 2006, pp. 6-7). This is also evidenced by the EBRD transition indicators. In particular concerning privatization and the liberalization of prices and trade, Kyrgyzstan and Kazakhstan were considered to be significantly closer to a market economy than their Central Asian neighbors at the end of the decade (see Table 1). It seems that this is to a notable degree due to the constraints faced by their political leaders. However, as in the case of the East Asian developmental states, there is also some evidence that personal ideologies had some importance.

Kyrgyzstan, the fastest reformer of the region in, was also the only country with a president that did not come through the communist hierarchy. As Pomfret (2006, pp. 73–74) summarizes:

Whether due to limited options or to the chance even that the incumbent leader had come from the Academy of Science rather than through the Communist administrative hierarchy as in the other Central Asian countries, the Kyrgyz Republic had by 1993 become the most liberal country in the region and the one most closely aligned with the “Washington Consensus” view of transition advocated by the IMF and the World Bank. In May 1993 the Kyrgyz Republic became the first Central Asian country to leave the ruble zone and issue its own national currency, and thereafter it was the first to bring hyperinflation under control. Its price and trade reforms were the most sweeping in Central Asia, and in 1998, it became the first of the Soviet successor states, including the Baltic countries, to accede to the WTO.

It appears that the Kyrgyz political leadership was consciously using the Western market economies – or at least the presumed ideal-type market economy as embodied in the recommendations of Western-dominated international organizations – as the key reference models for its country. As a consequence, Kyrgyzstan received much more aid from international donors than any other country (Pomfret, 2006, p. 74). In the quote above, Pomfret does explicitly make a suggestion on the question whether the reform commitment was mainly due to exogenous constraints or to personal ideologies of political decision makers, specifically of the president in the early 1990s, Askar Akayev. In East Asian developmental states, both ideology and constraints mattered for selecting economic reform options. In the case of Kyrgyzstan, there is no reason to come to a different conclusion.

Between 1991 and 1996, the Kyrgyz government also introduced a new legislative framework to govern the liberalized economy (Abazov, 1999, p. 243). However, this reform step did not lead to the desired results. This may be due to the interaction of new, formal institutions, with the heritage of informal institutions. According to Pomfret (2006), market-

unfriendly informal institutions related to the importance of personal contacts and corruption continued to dominate in Kyrgyzstan. Market-supporting formal rules were thus not sufficiently enforced.

For Kazakhstan, the heavy presence of Russians has been one of the most influential factors political affairs (Zhardykan, 2004). This had two main effects: on the one hand, the leadership under President Nursultan Nazarbayev was strongly dedicated to Kazakh nation-building; on the other hand, Kazakhstan was substantially influenced by the need to maintain economic ties with Russia and attempted to construct a “viable successor organization to the USSR” (Pomfret, 2006, p. 40).

Due to higher living standards and human-capital endowments, Kazakhstan’s political leaders were facing more favorable initial conditions for constructing a market economy than Kyrgyzstan’s (Pomfret, 2006, p. 6). In the early 1990s, Kazakhstan started the transition towards a market economy fairly quickly, following the radical reforms that had been implemented under Yeltsin in Russia (Pomfret, 2005, p. 859). The unusually close ties in terms of both population and economic linkages were presumably a key reason for choosing the northern neighbor as a reference model. Similar to Russia, prices were liberalized quickly and rapid privatization was pursued. But Kazakhstan remained for a longer time in the ruble zone than Kyrgyzstan and did not focus on macroeconomic stability to the same degree (Pomfret, 2006). Concerning privatization, Kazakhstan initiated a privatization program that included almost half of medium and small enterprises in 1991 (Simon, 2009, p. 69). However, the success of this process had become highly doubtful in the mid 1990s, when privatization became increasingly associated with corruption and resembled the Russian reference model in creating powerful vested interests (Pomfret, 2006 and 2010a).

A particularly important question in the context of nation building was the status of the northern regions, which were predominantly inhabited by Russians. Nationalism of the previously repressed ethnic Kazakhs and the status of ethnic Russians inhabiting the northern regions adjacent to Russia were important issues for a newly independent republic (Hiro, 2009) that had been thrown into relative geo-political insecurity. There were fears that Russians would seek the unification of the northern regions with adjacent Russia (Economist, 1997; Hiro, 2009). An important measure to counter such movements and establish the sovereignty of Kazakhstan in the northern regions was the decision to move the capital from Almaty, close to the Kyrgyz and Chinese borders, to the small city of Aqmola in the northern steppe (Cumings, 2002; Economist, 1997; Wolfel, 2002). While this decision had been already taken in 1991, the

official inauguration of Aqmola, which was renamed Astana, as the new capital took place in 1997 (Economist, 1997).

In contrast to Kazakhstan and Kyrgyzstan, none of the three southern Central Asian republics has been considered a rapid reformer in the 1990s. Tajikistan is a special case in this context, because it is the only country that did not emerge peacefully from the dissolution of the Soviet Union. Instead, it was burdened with a bloody civil war (1992–97) between the government dominated by former communists and predominantly Islamic opposition groups (Hiro, 2009; Pomfret, 2010b).

Turkmenistan has also shown extremely specific conditions. As a country that is only sparsely populated but in possession of large reserves in natural gas and oil and, in addition, an important exporter of cotton, Turkmenistan could expect unusually large gains in the terms of trade from the dissolution of the Soviet Union (Spechler, 2008a, p. 34). However, these gains made the emergence of a highly authoritarian political regime or, in the words of Pomfret (2006, p. 89) “pathological political conditions” possible. As Spechler (2004, p. 67) summarized:

President for Life Suparmurat Niyazov, a former Communist functionary, has encouraged a cult of personality that exceeds even that of Joseph Stalin in the late 1940s. Local newspapers have credited “Turkmenbashi” (father of all the Turkmen) with supernatural powers and divine ancestry. His book, *Rukhnama* (Spiritual Revival), must be studied in every school and government office.

The policies implemented by Niyazov made Turkmenistan the least reformed Central Asian country (Spechler, 2008a, p. 35). Economic liberalization had never been an objective for the regime, which, instead, focused on attaining economic independence. While some limited privatization took place, the overall resource allocation except for small-scale trading on the bazaars has not been determined by free prices. In addition, inflation amounted to more than 1000% for several years in the early 1990s, before it was brought down to double-digits in 1998. To some degree, profits from the exports of cotton, gas, and oil were used to finance import substitution projects such as oil refineries and textile plants, however their efficiency has been considered highly doubtful (Pomfret, 2006; Spechler, 2008a).

The actions of the political leadership in Turkmenistan, specifically of President Niyazov, can be explained by an exceptional freedom of action to maximize his personal utility. This freedom was due to several factors, the most prominent among them the stupendous resource endowment of Turkmenistan. The threat to the regime from either secular or Islamic opposition groups was negligible (Hiro, 2009, p. 205). Furthermore, the specific geo-political conditions kept Turkmenistan as the most southern Central Asian country relatively free from

any undesired foreign influence. As a consequence of the export of natural resources, the leadership felt, in contrast to all other Central Asian republics, no need to work with international organizations such as the World Bank and the IMF (Hiro, 2009). As a consequence of this lack of exogenous constraints for the President, Turkmenistan under Niyazov seems to be the clearest example of a predatory state in Central Asia.

Uzbekistan, the most populous country in the region, is another country whose transition strategy has been sharply criticized by Western observers and international organizations. According to Spechler (2000b, p. 295), this strategy was characterized by one key objective, namely “stability at any cost”. While Uzbekistan’s approach to transition was certainly more progressive than Turkmenistan, it is usually characterized as one of the slowest reformers in the former Soviet Union (Pomfret, 2006). Reppegather and Troschke (2006) referred to the Uzbek strategy as a variety of *gradualism*, which is commonly associated with the transition of the People’s Republic of China. While also referring the “Uzbek road” as “a sort of gradualism” (Spechler, 2000b, p. 299), Spechler (2000b, p. 295), stresses the differences to China, but makes explicit references to the East Asian developmental states:

The “Uzbek Road” is *sui generis*-neither the liberal “shock therapy” recommended by the Washington consensus nor the gradualism practiced by China and, to a degree, by Hungary. Rather than proclaiming growth as its main goal, Uzbekistan has emphasized “stability at any cost.” The authoritarian regime will assure stability by subsidizing employment, controlling prices on essential goods and services, privatizing the largest state-owned enterprises only gradually and partially, and pursuing self-sufficiency in energy and food supplies. Rather than devolving authority through early privatization by relying on whichever investors can be found, the state figures as “chief reformer.” All outside ideologies-Communism, political Islam, or neoliberalism-are rejected. Insofar as any outside country is to be emulated, the model would be South Korea, Malaysia, Japan, or Turkey – not the USA (Abazov, 1998).

In terms of initial conditions, Uzbekistan had both advantages and disadvantages compared to the other Central Asian economies. While all Central Asian countries are landlocked, Uzbekistan is one of only two double landlocked countries worldwide, i.e. a landlocked country that only borders other landlocked countries. Its resource endowments are less abundant than those of Turkmenistan and Kazakhstan, but more than those of Tajikistan and Kyrgyzstan. While different estimations for the GDP per capita in purchasing power parity make comparisons between the Central Asian countries in the early 1990s difficult,⁴ it is clear that Uzbekistan was poorer than Kazakhstan and Turkmenistan. However, Uzbekistan inhabited the

⁴ According to the estimates of the World Bank (2010), Uzbekistan was at independence poorer in terms of GDP/capita in PPP than Tajikistan and Kyrgyzstan. In contrast, it was richer than these countries according to Maddison’s (2010) estimates. The estimates of the IMF (2011) occupy a middle ground, since they rank Uzbekistan above Tajikistan but below Kyrgyzstan.

most capable and effective public administration in Central Asia, because Tashkent had been the regional capital of the region during Soviet times (Pomfret, 2003).

The Uzbek transition strategy was gradual in the sense that small-scale privatization was undertaken quickly, while large-scale privatization and agrarian reform were only limited when compared to Kazakhstan and Russia (Pomfret, 2006, p. 27). Furthermore, the government has retained the control over natural resource rents and, for the most part, over the financial sector (Pomfret, 2006, p. 27). Industrial policies aimed at import substitution were pursued through public investment in favored enterprises, specifically in chemical and petrochemical enterprises as well as in cotton mills. Yet, as in Turkmenistan, Pomfret (2006) considers these projects to have been largely inefficient. As a result of such policies, he characterizes the Uzbek development strategy as inward looking, even though its economy had a high export to GDP ratio.

The economic performance of the five Central Asian republics in the 1990s shows that all experienced economic troubles as a result of transition from communism (Table 2). This is not surprising, given similar recessions in Russia and other countries that underwent the transformation from a planned economy at this time. Moreover, it is not surprising that Tajikistan, which suffered from civil war for most of the decade, experienced the sharpest decline in GDP. The development that has caused most attention in economic research on the region was that Uzbekistan was by far the best performer. In contrast, the GDP of the resource-rich countries Turkmenistan and Kazakhstan declined by about a fourth and almost a third, respectively, and GDP of Kyrgyzstan, the “early poster child for neoliberal reforms” (Spechler, 2004, p. 71), declined by around 30% in the 1990s. Uzbekistan experienced a moderate decline of 2% (Table 2). The difference in economic performance between the two by far most important economies, Uzbekistan and Kazakhstan, becomes smaller when performance is measured by GDP per capita (PPP) instead of total GDP (Table 3). This is due to Kazakhstan’s decline in population, caused mainly by the emigration of Russians and Germans. However, even by this measure, Uzbekistan was Central Asia’s most successful economy in the 1990s.

Table 2: Real GDP growth of the Central Asian republics, 1991–2000 [%]

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Cumulated 1991-2000
Kazakhstan	-11.0	-5.3	-9.2	-12.6	-8.2	0.5	1.7	-1.9	2.7	9.8	-30.6
Kyrgyzstan	-7.9	-13.9	-15.5	-20.1	-5.4	7.1	9.9	2.1	3.7	5.4	-33.4
Tajikistan	-7.1	-29.0	-16.4	-21.3	-12.4	-16.7	1.7	5.3	3.7	8.3	-61.9
Turkmenistan	-4.7	-5.3	-10.0	-17.3	-7.2	-6.7	-11.3	6.7	16.5	18.6	-24.0
Uzbekistan	-0.5	-11.2	-2.3	-5.2	-0.9	1.7	5.2	4.3	4.3	3.8	-2.0

Source: World Bank (2010), cumulated growth own calculation based on World Bank (2010).

Table 3: Real GDP per capita (PPP) growth of the Central Asian republics, 1991–2000 [%]

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Cumulated 1991-2000
Kazakhstan	-11.6	-5.2	-8.6	-11.3	-6.6	2.0	3.3	-0.2	3.7	10.1	-23.7
Kyrgyzstan	-9.3	-14.9	-15.4	-20.0	-6.5	5.5	8.3	0.6	2.2	4.4	-40.1
Tajikistan	-9.1	-30.3	-17.7	-22.5	-13.7	-17.9	0.3	3.9	2.4	7.0	-67.3
Turkmenistan	-7.3	-8.0	-12.5	-19.4	-9.2	-8.4	-12.6	5.3	15.0	17.0	-38.1
Uzbekistan	-2.6	-13.3	-4.5	-7.0	-2.7	-0.2	3.2	2.6	2.8	2.7	-18.5

Source: World Bank (2010), cumulated growth own calculation based on World Bank (2010).

The exact causes for the relatively good economic performance of Uzbekistan are not easy to determine. Since the country did not follow the advice of international organizations and Western mainstream economists, it was considered a paradox (Pomfret, 2006). Pomfret (2010a, p. 452) offers three different, but not necessarily contradictory explanations: favorable conditions for Uzbek cotton and gold exports, better economic administration than in the other republics, and the gradual transition strategy implemented by Islam Karimov's government.

In contrast to the main export goods of Kazakhstan and Turkmenistan, oil and natural gas, cotton and gold exports did not rely on existing pipelines through Russia and could be

redirected towards Western markets quite easily. In addition, the prices for cotton were on the rise in the early 1990s. However, they declined in 1996, which caused the government to impose import controls and a complicated, multiple exchange rate system (Pomfret, 2006; Spechler, 2000b). This essentially leaves Uzbekistan's relatively capable administration, public investment and good economic management embodied in a successful transition strategy as the most likely reasons for its economic success. Empirical studies indeed seem to show that these are relevant explanatory factors for the so-called "Uzbek puzzle" (Pomfret, 2006, p. 28). These explanations might hint towards a certain resemblance of Uzbekistan with a developmental state.

3.2. The economic performance of the Central Asian countries since 2000

Taking a look at the development of the EBRD transition indicators for the Central Asian countries in the last ten years, it is striking how small the progress was compared to the 1990s (see Table 4 and Pomfret, 2010a). Of course, Kazakhstan and Kyrgyzstan had already achieved very high evaluations concerning small-scale privatization and price liberalization in 2000 (one might add the trade and foreign exchange rate system in the case of Kyrgyzstan). However, there was virtually no progress in other areas, specifically enterprise restructuring, competition policy, banking reform, the securities market, and infrastructure. With the partial exception of Tajikistan that emerged from civil war in 1997, the other Central Asian countries show a similar picture, albeit remaining at an overall lower level.

While the progress of the Central Asian countries concerning further economic reforms has been lackluster since the end of the 1990s, their economic performance improved drastically. As Tables 5 and 6 show, the economic development of Central Asia after the turn of the millennium differed drastically from the 1990s. All five countries recovered from recession and showed, with minor exceptions, positive growth rates in both total GDP and GDP per capita throughout the decade.

Table 4: EBRD transition indicators of the Central Asian countries, 2000 and 2010

	Kazakhstan		Kyrgyzstan		Tajikistan		Turkme- nistan		Uzbekistan	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Large scale privatisation	3.0	3.0	3.0	3.7	2.3	2.3	1.7	1.0	2.7	2.7
Small scale privatisation	4.0	4.0	4.0	4.0	3.3	4.0	2.0	2.3	3.0	3.3
Enterprise restructuring	2.0	2.0	2.0	2.0	1.7	2.0	1.0	1.0	1.7	1.7
Price liberalisation	4.0	4.0	4.3	4.3	3.7	4.0	2.7	2.7	2.7	2.7
Trade & Forex system	3.3	3.7	4.3	4.3	3.3	3.3	1.0	2.0	1.0	2.0
Competition Policy	2.0	2.0	2.0	2.0	2.0	1.7	1.0	1.0	2.0	1.7
Banking reform & interest rate liberalisation	2.3	2.7	2.0	2.3	1.0	2.3	1.0	1.0	1.7	1.7
Securities markets & non- bank financial institutions	2.3	2.7	2.0	2.0	1.0	1.0	1.0	1.0	2.0	2.0
Overall infrastructure reform	2.0	2.7	1.3	1.7	1.0	1.7	1.0	1.0	1.3	1.7

Note: Indicators are measured on a scale from 1 (no reform) to 4.33, with pluses and minuses, e.g., 3+ and 3- are represented by 3.33 and 2.67.

Source: EBRD (2011).

Table 5: Real GDP growth of the Central Asian republics, 2001–2010 [%]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulated 2001-2010
Kazakhstan	13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.3	1.2	7.0	120.8
Kyrgyzstan	5.3	0.0	7.0	7.0	-0.2	3.1	8.5	8.4	2.9	-1.4	48.2
Tajikistan	10.2	9.1	10.2	10.6	10.5	6.7	7.0	7.8	7.9	3.8	123.2
Turkmenistan	20.4	15.8	17.1	17.2	13.0	11.4	11.8	10.5	6.1	8.1	241.4
Uzbekistan	4.2	4.0	4.2	7.7	7.0	7.3	9.5	9.0	8.1	8.5	95.5

Source: World Bank (2010), cumulated growth own calculation based on World Bank (2010).

By both measures, sparsely-populated Turkmenistan, which is among the countries with the largest reserves of natural gas in the world (Pomfret, 2010a, p. 455), was clearly the best performer (Table 6). Apparently, this was mainly due to rapidly soaring prices, which had previously been stagnating until 1998 (Pomfret, 2010a). There seems to be no evidence that improved economic policies, a more effective administration or similar factors had a decisive influence on this development. Compared to the previous decade, the EBRD transition indicators for Turkmenistan even worsened in the field of large-scale privatization (Table 4). As Pomfret (2010a, p. 454) states, the value of the Turkmen GDP increased because of a higher export prices, but the production of gas grew only very slowly while non-gas output stagnated. Furthermore, one has to keep in mind that the reliability of economic data for the five Central Asian republics is quite questionable, due to the political conditions in the region and the crucial importance of black markets. Although this is a general problem, there are important differences between the countries in the region. Turkmenistan is considered to have the least reliable data among all former Soviet republics (Pomfret, 2010b, p. 7). While the death of President Niyazov in 2006 sparked hopes of political and economic reforms, Pomfret (2010a, p. 455) argues that the actual steps towards liberalization undertaken by the new president Berdymukhammedov “were largely cosmetic and serious economic reforms minimal”.

Table 6: Real GDP per capita (PPP) growth of the Central Asian republics, 2001–2010 [%]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulated 2001-2010
Kazakhstan	13.7	9.8	8.9	8.8	8.7	9.5	7.7	2.0	-0.4	4.4	101.5
Kyrgyzstan	4.5	-0.8	6.0	5.9	-1.2	2.1	7.7	7.5	2.0	-2.2	35.8
Tajikistan	9.0	7.9	9.0	9.3	9.1	5.2	5.4	6.1	6.1	2.0	94.7
Turkmenistan	18.7	14.1	15.4	15.5	11.4	9.9	10.3	9.0	4.7	6.7	196.9
Uzbekistan	2.9	2.7	3.0	6.5	5.8	6.0	7.9	7.2	6.3	7.0	71.1

Source: World Bank (2010), cumulated growth own calculation based on World Bank (2010).

Tajikistan is another country that has been comparatively successful by economic measures in the decade since 2000. In addition, it is among the Central Asian countries that improved at least concerning some transition indicators over the last decade (Table 4). Nevertheless, its

achievements have been quite limited. In 2000, Afghanistan was the only Asian country with a significantly lower GDP per capita in purchasing power parity (Pomfret, 2010b, p. 7). Furthermore, Tajikistan is the poorest of all transition countries (Spechler, 2008a, p. 37). After the civil war, Tajikistan's approach towards transition has been comparatively liberal, but the implementation of policies has been poor overall (Pomfret, 2010b). According to Spechler (2008), Tajikistan's large-scale industry remains unreformed and uncompetitive, the well-being of its citizens relies to a large degree on remittances from Tajiks working abroad (mainly in Russia) and attempts to attract foreign investment have been essentially unsuccessful.

Even though there had been predictions that economic liberalization would finally pay off for the rapid reformers (Pomfret, 2010a and 2010b), Kyrgyzstan showed the worst economic performance of all Central Asian countries in the last decade. An important reason for this development was political turmoil. Whereas President Akayev had been the most liberal among the Central Asian political leaders, his regime had become increasingly "resorting to rule by decree and acquiescing in the enrichment of relatives and friends" (Pomfret, 2010a, p. 17). Perceptions that he had a regional bias in terms of favoring the north of the country over the south lead to his resignation in the so-called Tulip Revolution in 2005 (Pomfret, 2010a, p. 17). His successor, Kurmanbek Bakiyev, had to resign in April 2011 in the face of severe riots between the ethnic groups of Kyrgyz and Uzbeks in the south of Kyrgyzstan (Economist, 2011a; 2011b).

Keeping in mind the three most important characteristics of a developmental state – a strong commitment to economic development, an economic policy approach that involves crucial state intervention, and a capable, effective state apparatus – it is apparent that none of the three smaller Central Asian countries resembled such a state in the past two decades.

According to Pomfret (2010a), Tajikistan rather shows characteristics of a failed state. This evaluation is largely based on the 1990s when the country decayed into chaos. However, even after 1997, the central government had to share the control over Tajik territory with local warlords, and the implementation of policies has been poor (Pomfret, 2010b). This is very sharp contrast to any characterization of a developmental state.

Kyrgyzstan represents a slightly different case, because the apparent commitment to economic reforms, which the government had shown in the 1990s, might lead to infer that the political leadership had a genuine commitment to economic growth. However, embracing the recommendations of economically liberal international organizations apparently represents an obvious divergence from the path of development pursued by countries such as Japan or South Korea. It is, of course, impossible to know how the Kyrgyz economy would have developed

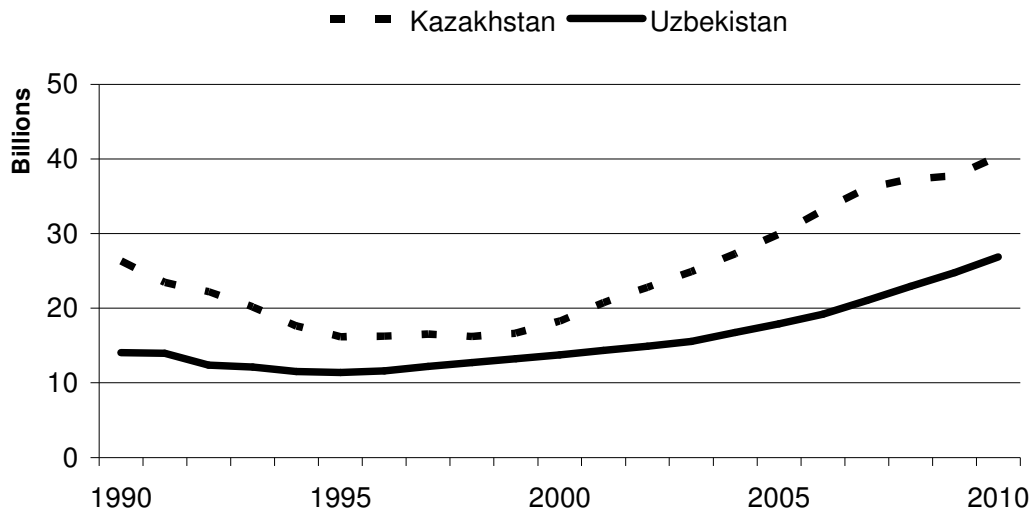
with a different strategy. Indeed, the country's high dependence on foreign aid and its weak bargaining position towards donors make it debatable whether the political decision makers actually had the possibility to consider a markedly different transition strategy. The development of Kyrgyzstan in the last years, with two regime changes in the face of popular uprisings and inter-ethnic tensions, is no reason for optimism that the country will be able to effectively implement a coherent and successful economic strategy very soon.

Turkmenistan is different from both Tajikistan and Kyrgyzstan in that it achieved unusually high rates of economic growth and political stability over the last years. However, the characteristics of its political regime seem to prohibit any comparison with the East Asian developmental states. While several countries in East Asia also had authoritarian regimes during periods of fast economic growth, the isolation of Turkmenistan and the opacity of economic and political conditions in the country make it truly exceptional by international standards.

This shifts the focus to the two most populous countries and by far most important economies in the region: Kazakhstan and Uzbekistan. For most observers, Uzbekistan was the surprise of the 1990s, because it experienced an unusually small recession after the dissolution of the SU and became the best performer among the Central Asian economies in spite of Western criticism of its gradual transition strategy. However, Uzbekistan did not manage to achieve a similarly successful development after in the last decade. As Tables 5 and 6 show, it was the worst performer of the region with the exception of the politically unstable Kyrgyzstan. Instead, it seems that Kazakhstan has become the region's most important political and economic power.

Figure 2 compares the total GDP of Kazakhstan and Uzbekistan over the last two decades. As can be seen, Uzbek GDP has been smaller than the Kazakh in all years since independence, in spite of the smaller population of Kazakhstan. This was obviously due to a higher GDP per capita and interrelated with human capital. However, the gap seemed to disappear in the early 1990s: while Kazakh GDP declined sharply due to the transitional recession and the heavy emigration of the skilled German and Russian minorities, Uzbekistan's GDP remained almost at the same level. As Figure 2 as well as Tables 5 and 6 show, this convergence seems to have ended in the late 1990s. Since then, Kazakhstan consistently achieved higher economic growth rates than its southern neighbor. This represented a challenge to Uzbekistan, whose government had pretensions towards regional leadership before (Cummings, 2002, p. 17; Pomfret, 2010a, p. 455) – a position that Kazakhstan now attempts to assume (Schmitz, 2009, p. 15).

Figure 2: GDP of Kazakhstan and Uzbekistan, 1990–2010 [constant 2000 US\$]



several exogenous factors explain the successful economic development of Kazakhstan after the turn of the millennium. Oil prices did not only increase drastically, there was also a surge in production from Kazakh oil fields due to new discoveries. Moreover, new pipelines independent from Russia had been opened, which improved Kazakhstan's bargaining position. Thus, Kazakhstan benefitted in a variety of ways from the oil boom. Uzbekistan is roughly self-sufficient on oil and natural gas which means that the direct effects of the oil boom on the economy were essentially neutral (Pomfret, 2010a).

While these exogenous factors are of extraordinary importance, one also has to notice the continuing differences in economic policy and transition strategy between Kazakhstan and Uzbekistan. The latter, which has been more closed towards foreign trade and influence than Kazakhstan since the beginning, has become even more isolationist and inward-looking in some aspects. Foreign exchange controls were implemented in 1996 in the face of declining cotton prices. While these were officially removed in 2003, Pomfret (2010b) argues that practical limitations on access to foreign currencies remain and lead to the misallocation of resources and the protection of domestic producers. The United States and international organizations such as the EBRD revoked their limited financial assistance to the country in 2004 due to a lack of economic reforms and human rights violations (Economist, 2004). In 2005, the United States were in turn asked to vacate their military air base in Uzbekistan, which had been the heart of US operations in Afghanistan (Economist, 2005; Gleason 2006).

Kazakhstan has also shifted its transition strategy to some degree. Due to the rapid reforms that the Kazakh government undertook in the early 1990s, the country is still much more liberal and market-oriented than its southern neighbor. Spechler (2008, p. 33) summarizes:

Privatization has proceeded farther in Kazakhstan than nearly any other Central Asian country. With two-thirds of all firms already in the private sector by 2006 according to the EBRD. Prices are almost completely market based. Banking and other financial institutions are much better established than elsewhere in the region.

However, he notes that Kazakhstan is still an example of *state-led capitalism*, because state-owned companies continue to be dominant in strategic industries and account for a significant share in gross investment (Spechler, 2008a, pp. 33). Pomfret (2010a) argues that the management of Kazakhstan's economy and the institutions governing it have improved in the 2000s. When the world financial crisis broke out in 2007/08, the Kazakh government reacted by increasing its involvement in the economy. A national wealth fund was founded in 2008 with the objective of directing investment into infrastructure and industrial diversification (Scharff, 2010).

This combination of state involvement, good economic performance, and comparatively good economic management might suggest that it is now Kazakhstan, and not Uzbekistan, which shows more resemblance to the East Asian developmental states – in contrast to the 1990s. In any case, both the development path and the importance of these two economies seem to suggest that it is useful to analyze their institutions in more detail in the following section.

4. DIVERGING TRANSITION STRATEGIES OF KAZAKHSTAN AND UZBEKISTAN: THE IMPORTANCE OF CONSTRAINTS AND IDEOLOGIES

4.1. Kazakhstan's path from rapid reformer to state-led capitalism

Political conditions

Since the last years of Soviet rule, Kazakh politics has been dominated by one person: President Nursultan Abishuly Nazarbayev, born 1940 close to the former capital of Kazakhstan, Almaty. Assuming the top-office in the Kazakh SSR in 1989, Nazarbayev reluctantly led the country into independence two years later (Heinrich, 2010; Olcott, 1992). While the political conditions in Kazakhstan had been comparatively pluralistic and elections competitive in the first years

after independence, the regime has become more authoritarian over time (Cummings, 2002; Pomfret, 2006).

The increasing authoritarianism in Kazakhstan has been frequently criticized by international organizations (see, e.g., OSCE, 2011) and Western observers (Cummings, 2002; Davé, 2009). However, the lack of a true democracy does not necessarily represent an obstacle for economic development, as the examples of several successful East Asian economies have shown. Indeed, scholars also note some aspects of Nazarbayev's regime that could be beneficial from an economist's standpoint. Davé (2009, p. 248) notes that, while on the one hand disbursing resources to his kinship and friends, Nazarbayev on the other hand "also allowed much economic freedom to the country's budding entrepreneurs and offered rapid career mobility to the growing class of skilled professionals, technocrats, and top bureaucrats". Cummings (2002) argues that pragmatism has been more important than ideology in Kazakh politics. Whereas Perlman and Gleason (2005, p. 101) assert that the Kazakh elites may use "administrative reforms as a way to channel resources to themselves", they maintain that these elites have realized "that the best way to maximize the resources subject to corruption is to be in control of a growing economy and to create surplus through government efficiency". To a notable degree, these three statements could also be used to describe the characteristics of several East Asian developmental states.

From the perspective of the developmental-state model, a key issue is the participation of different societal actors in decision making. Specifically, participatory mechanisms in economic policy making are of utmost importance from the perspective of the developmental-state concept.

Kazakhstan did indeed show some participatory mechanisms that were in line with the Western model of democracy in early 1990s. According to Cummings (2002), Kazakhstan had a comparatively outspoken media in the initial years of independence. The first constitution, adopted in 1993, established a semi-presidential republic in Kazakhstan (Heinrich, 2010). However, this relatively liberal period ended shortly afterwards. While President Nazarbayev exercised informal power over parliament and the constitutional court almost from the beginning (Cummings, 2002), revisions of the Constitution in 1995 and 1998 strengthened the power of the President also formally at the expense of the parliament (Heinrich, 2010). In 2007, an amendment was passed that allows Nursultan Nazarbayev to run for president an unlimited number of times, but limits future presidents to two terms (Heinrich, 2010). Furthermore, the media was brought under tightened state control beginning in 1997 (Cummings, 2002). Cummings (2002, p. 9) asserts that "by 2002 executive dominance had supplanted the attempts

at pluralism in the early years of independence”. According to Davé (2009, p. 252), Kazakhstan’s political system is best characterized as “a hybrid of Soviet-era institutions and practices overlaid with some formal and cosmetic elements of Western democratic systems and models of governance”.

It is apparent from these accounts that participatory mechanisms which are commonly associated with Western democracy are not present to a significant degree. Over the last two decades, Nursultan Nazarbayev has achieved the adoption of formal institutions that concentrate the political power in his hands to an unusual degree. Nevertheless, this does not mean that he is able to maximize his personal utility without facing constraints. One important constraint that shaped the political choices and the institutional development to a significant degree has already been mentioned in the preceding sections: the ethnic heterogeneity of Kazakhstan, in particular the presence of a Russian majority in the northern regions. In this context, one might also add the inner structure of the Kazakh society, which is formed by kin-based clans, or hordes, that continue to be of great importance (Schatz, 2004). According to Cummings (2002), the issue of Kazakh-Russian multi-ethnicity dominated politics until around 1995 when the Russian emigration and the higher Kazakh birthrates made the dominance of the Kazakh ethnicity apparent. Since then, this issue has been overshadowed by concerns of intra-Kazakh balance between the three different traditional hordes.

An interrelated constraint to the decision-making freedom of the President arises from the international context. Because of the difficulties to establish the legitimacy of the new Kazakh government over the Russian population in the north, foreign policy has been used as a legitimating tool by President Nazarbayev (Cummings, 2002). While cooperating quite closely with Russia, he tries to balance the Russian influence by maintaining comparatively close relations with Western countries and the People’s Republic of China. Kazakhstan is a member of several international organizations such as the Organization for Security and Co-operation in Europe (OSCE) and the Shanghai Cooperation Organisation (SCO), which brings together the Central Asian countries, Russia, and China. There is evidence that Nazarbayev considers these memberships to be a crucial component of his foreign policy. In particular through the membership in the OSCE – which was presided by Kazakhstan in 2010 (Interfax, 2010) – Western countries do seem to have a certain influence on the regime. When Nazarbayev recently decided to cancel the presidential elections in 2012 and 2017 in order to stay in power until 2020, it was apparently Western criticism that caused him to revise his decision and to call for early elections in 2011 (Neef, 2011).

While the position of the President seems to be virtually uncontested in present-day Kazakhstan, important intra-elite cleavages and limited political competition exist at lower levels. Even though the parliament and politics in general are clearly dominated by the Nur Otan party, headed by Nursultan Nazarbayev, several opposition parties exist and are a viable political force within certain constraints (Bowyer, 2008; Heinrich, 2010). Perlman and Gleason (2005, p. 108) argue that the debate and contestation over policy alternatives in Kazakhstan is more open than in all other Central Asian countries. According to Bowyer (2008), a genuine debate and discussion even takes place in the lower house of parliament, in spite of the affiliation of all its members with the Nur Otan party. However, the cleavages within the parliament are mostly along regional, and not ideological, lines (Bowyer, 2008, p. 5).

The state-business nexus

In his speech on the *Strategy 2030*, Nursultan Nazarbayev stated that one of the basic principles of Kazakhstan's economic policy should be "limited interference of the state with the economy combined with an active role thereof" (Nazarbayev, 1997). He (Nazarbayev, 1997) adds on this by stating:

In the economy the state must play a substantial though limited part in creating legitimate limits of the market in which the private sector is offered a leading part. We mean finalizing formation of the legal basis that would provide for registering ownership rights, on shaping up competitive markets and reliable means of antimonopoly regulation, on maintaining fiscal and monetary policy, on developing a network of social protection, on providing for the development of requisite infrastructure, education, health care, and on pursuing effective environmental policy. If, for the time being, the markets are weak and underdeveloped, if the market space is encumbered with fragments of the administrative system, the state must interfere having in view development of the market and clearing of the space.

Thus, in spite of stressing state-activism, the role that Nazarbayev supposedly envisioned for the Kazakh state in the economy is largely in line with the recommendations of international organizations and most Western economists. While referring to several of the most successful East Asian economies as reference models, the key lesson Nazarbayev draws from there experience seems to be macroeconomic stability. As it says in the *Strategy 2030*:

To become the first ever Asian Snow Leopard, we must deem, as a priority, utilization of the best international experience in the field of macroeconomic indices-low inflation, low budget deficit, steady national currency, high rate of savings. Such formula proved effective for Japan, Korea, Indonesia, Taiwan and Chile. Hopefully, it would prove as effective for Kazakhstan. So far we have never faced the alternative: inflation or economic growth. We must never forget that our finite goal is economic growth, and macrostabilization is but a means of gaining this objective.

This is very close to the conclusions that the World Bank study (1993) drew from the East Asian miracle, which had been published only four years before Nazarbayev's speech. In general, Nazarbayev seems to embrace the model of a liberal market economy, open to foreign investment and trade, in the Strategy 2030. He quotes economists such as Adam Smith and Ludwig Erhard to support his arguments. Obviously, this does not necessarily mean that he had a genuine commitment to liberal economic policy. Nevertheless, it is true that Kazakhstan belonged to the formerly communist countries that quickly implemented consequent liberal reforms and abolished most forms of public control over the economy from a formal point of view (Libman, 2010). In addition, the unusually high levels of foreign direct investment in Kazakhstan seemed to be evidence of such a commitment. Nevertheless, the Kazakh state never retreated to a purely regulatory role. Furthermore, the strategy 2030 was announced in 1997, and the conditions have changed notably since then. The main changes concerning the role of the Kazakh state in the economy have taken place in the area of the state-business nexus, which is of utmost importance for the implementation of any economic strategy. These changes concern not only the mechanisms that the state uses to interact with foreign and domestic private companies, but also, and most strikingly, the level of influence that the state exercises. As in other areas, the development of Kazakhstan shows some parallels with Russia in this respect.

In the first decade after independence, the Kazakh state established a regime with two different forms of government-business relations (Libman, 2010). This refers on the one hand to the state's relationship with domestic business groups, which had close informal ties the president and his family, and on the other hand to foreign investors, primarily in the mining and energy sector, who enjoyed important privileges (Libman, 2010). It is not easy to determine the relative bargaining power of the state vis-à-vis these groups. Apparently, the Kazakh state decreased its formal role in the economy to a remarkable degree during the 1990s. While this of course an essential component of the transition process from a command economy towards a market economy, the loss of control of the central government of Kazakhstan in some aspects seems to have gone further than other formerly communist countries. According to Schmitz (2009), regional elites gained significant influence on the economy and administration at the expense of the central government in the 1990s. The competition between regional and central authorities apparently led to uncertain and in-transparent conditions for foreign investment because of bureaucratic arbitrariness. At the same time, the foreign investors were able to attain the control over the Kazakhstan's most attractive assets in the mining and energy sector and

achieved a stronger position than in other formerly communist countries such as Russia (Libman, 2010). Pomfret (2010a) argues that these investors were only under weak state control in the 1990s. The state's relationship with domestic companies was quite different from that with foreign companies, since the state remained in a more powerful position. Similar to Russia, the quick privatization of the state's assets led to the emergence of large private businesses groups. However, the Kazakh private business continued to depend more on governmental support and their personal ties to the president than their Russian counterparts (Libman, 2010).

Since 2000, the political conditions in Kazakhstan changed in the way that power became concentrated more in the center, and specifically in the hands of President Nazarbayev. At the same time, the government initiated a re-nationalization process in the economy (Libman, 2010). Most importantly, the Kazakh government has been attempting to regain the control over strategic industries related to the extraction of raw materials, a policy that has been referred to as economic nationalism (Schmitz, 2009). According to Libman (2010, p. 55), these changes mean that "the very core of one of the government-business relations models was re-defined". While the Kazakh government has also increased its control over domestic businesses, this shift was less pronounced since it had always been in a comparatively strong position towards them (Libman, 2010). Nevertheless, it is apparent that the central government has become stronger in the bargaining process with other economic interest groups.

Some of the most important mechanisms and organizations at the intersection of state and business in Kazakhstan are the *Foreign Investor's Council (FIC)*, the association *Atameken*, and the national wealth fund *SamrukKazyna*. The *FIC* was formed in 1998 as an advisory body to promote the dialogue between the government and foreign investors. It is chaired by president Nazarbayev (FIC, 2011) and has two major objectives: submitting economic policy recommendations of the foreign investors to the government and analyzing policy issues at the instruction of the president (FIC, 2011). Whereas the *FIC* serves as a communication channel between the government and foreign companies, *Atameken* has the same function between the government and the domestic private sector. *Atameken* is an association of more than 1000 enterprises from different sectors that serves as an important communication channel between the government and private companies and may facilitate some participation of business in economic decision-making. Recent press releases seem to be evidence of the importance of this organization. Timur Kulibayev, who has been chairman of *Atameken* since 2010, was also appointed head of *SamrukKazyna* in April 2011 (Interfax, 2011a). He is president Nazarbayev's son-in-law and considered to be on the short list of potential successors (Interfax, 2011a). Furthermore, there have been several reports arguing that a political party might evolve from the

organization of Atameken (Interfax, 2011b; Maratov, 2011; Ostapenko, 2011). While this party would be loyal to the president, it would also compete with Nur Otan for influence and may give a voice to private companies, specifically to small and medium businesses, in the political arena (Maratov, 2011).

Both the FIC and Atameken are mechanisms that have the aim of facilitating the communication between government and business. While this may also lead to the exertion of influence by the government – or, in some cases, by the businesses – these organizations are not means direct government involvement in the economy. The national wealth fund *SamrukKazyna* represents a different case. It was formed in 2008 through merging the state holding Samruk with the development fund Kazyna (Scharff, 2010) and has been one of the most important instruments that the state has used to exercise its influence in the economy in recent years. The holding Samruk had already been founded two years earlier as a tool to manage and coordinate major state-controlled companies in the areas of natural resources and infrastructure (Libman, 2010; Schmitz, 2009). At the recommendations of McKinsey, it was modeled after similar organizations in Singapore and Malaysia (Schmitz, 2009, p. 14). While Samruk originally had the official objective to further the privatization of the state-controlled businesses, the state has actually increased its control throughout the economy in the wake of the financial crisis of 2007/2008 (Scharff, 2010).

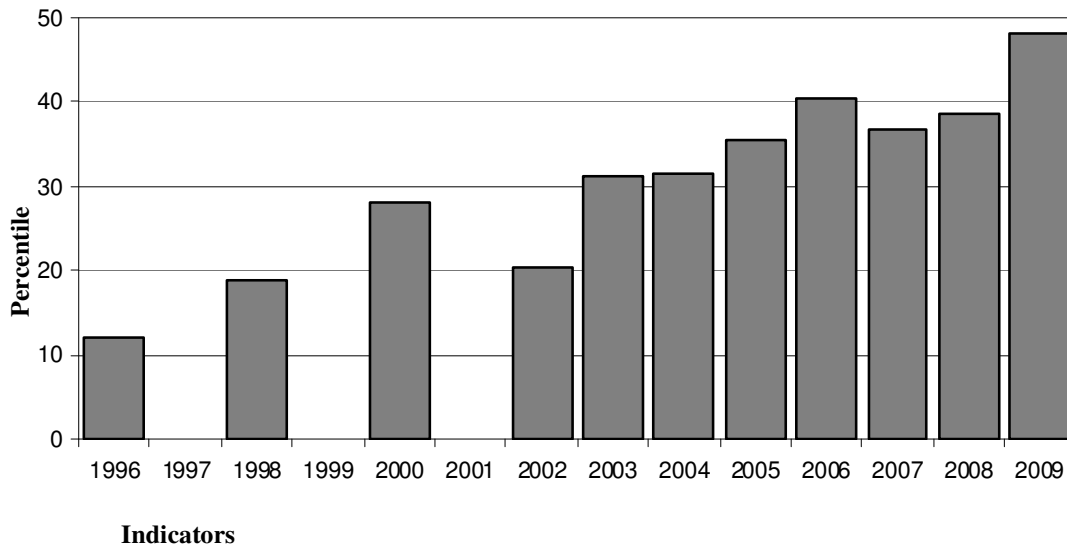
The increased involvement of the state in economic affairs is also mirrored in the president's statements. While he apparently embraced an overall liberal approach to economic policy in his Strategy 2030, his rhetoric seems to have changed in important aspects since then. At the beginning of his annual address to the people of Kazakhstan in the year 2008, he stated: "We should continue our strategic focus on Kazakhstan's industrialization, on our joining the community of the world's 50 most competitive nations and on forming a select group of 30 corporate leaders to advise on these goals" (Nazarbayev, 2008). He furthermore argued in favor of a new tax code to promote the diversification and modernization of the Kazakh economy (Nazarbayev, 2008). Both statements seem to hint towards a more activist role of the government, and in particular the focus on diversification and modernization through government-induced incentives is similar to the economic policies pursued in the East Asian developmental states. However, important questions remain. First of all, it is unclear whether the commitment of the Kazakh government, specifically of president Nazarbayev to economic development, industrialization, and diversification is genuine. Even if this is the case, it remains to be seen whether the Kazakh state apparatus actually has the capabilities to implement effective measures to promote this development.

The public administration

In contrast to Japan or Korea, Kazakhstan did obviously not look back to a long history of well-organized and effective public service. Statehood essentially came with the Russian colonization to the previously nomadic people of the Kazakh steppe. The informal institutions that govern the attitudes of Kazakh bureaucrats have been shaped both by the Soviet legacy and by cultural values predating the Russian influence in the region. According to Libman (2008), these cultural values may have contributed to evaluations that saw the Soviet administration in Asia as more corrupt than its counterpart in the European part of the SU. The Soviet legacy itself had probably both positive and negative aspects. There is no doubt that the Soviet public service was both inefficient and subject to remarkable corruption. Nevertheless, the Soviet state apparatus was certainly more effective than the administration of many developing countries in the sense that it was firmly in control of the country's territory, able to exercise power and to implement decisions taken at the center.

In spite of some positive aspects of the Soviet legacy, Kazakhstan did not face particularly good circumstances in terms of bureaucratic quality when it became independent. Apparently, measuring the quality of the administrative apparatus is a difficult task and no evaluation can claim to be reflective of all relevant aspects and entirely objective. A set of indicators that captures some of the most important factors that are important in this context are the Worldwide Governance Indicators. These are meta-indicators calculated on the basis of other evaluations by the World Bank. For the purposes of the present study, the indicator for *government effectiveness* is most important. This indicator represents an attempt to measure “perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies” (World Bank, 2011).

Figure 3: Government effectiveness in Kazakhstan as measured by the World Governance



Source: World Bank (2011).

Notes: “Percentile” refers to the percentage of countries that rank lower than Kazakhstan in a given year. The Worldwide Governance indicators were not compiled for years before 1996 and only on a two-year basis between 1996 and 2002.

As Figure 3 shows, Kazakhstan’s government effectiveness as measured by the Worldwide Governance Indicators was at a very low level in 1996, when they were first compiled. Only slightly less than 10% of the countries taken into account ranked lower according to the World Bank’s evaluation. However, there seems to have been an impressive development since then. With the exception of a setback in 2002, Kazakhstan has consistently improved its government effectiveness since 1996, even though it still ranks below 50% of the analyzed countries. The significant improvements in the Kazakh civil service are also acknowledged by a more detailed analysis of the World Bank (2005, p. 51). It is argued that:

The Kazakh civil service system remains one of the most advanced among Central and East European and CIS states, and is built on a strong institutional foundation. The focus on stabilization and institutional development, which has dominated the process over the last four years was the correct one, and the result is a strong basis for further development of the civil service.

However, there are also accounts that draw a more negative picture. The most recent country study of the Bertelsmann Foundation on Kazakhstan argues the attempts to completely overhaul the organization of the bureaucracy were partly characterized by unclear implementation that resulted in job duplication. Furthermore the study asserts that bureaucratic recruitment is still dominated by political loyalty (Bertelsmann Foundation, 2009a, p. 18). Yet, it is also recognized that the Kazakh government has implemented market reforms effectively (p. 17), that there was progress in the field of corruption (p. 18), and that there are “pockets of elites that continue to be extremely well trained” in the public administration (p. 8).

Apparently, there are many questions that remain to be answered. Judging by the formal institutions that supposedly govern the process of bureaucratic promotion and recruitment (UNO, 2004), the Kazakh civil service should be characterized as a meritocracy. But apparently, this is not entirely the case. If the analysis of the Bertelsmann Foundation is correct and there are some agencies with a high bureaucratic quality and effectiveness within an overall weak public service, it has to be analyzed where these “pockets of elites” are. In this context, it is noteworthy that the Korean bureaucracy in the early years of the developmental state under General Park had been characterized as bifurcated (Cheng et al. 1998, p. 104; Kang, 1995, p. 575). This means that economic agencies were overall effective and governed by meritocratic processes whereas domestic service ministries were characterized by clientelistic appointments and inefficiency. Hence, the continued presence of non-meritocratic informal rules in the Kazakh public service may not necessarily impede the emergence of a developmental state.

4.2. Uzbekistan: gradualism or stagnation?

Political conditions: constraints and ideologies

Similar to Kazakhstan, but in contrast to all other Central Asian countries, Uzbekistan has been ruled by a single person since its independence: President Islam Abdugʻaniyevich Karimov, born in Samarkand in 1938. As Nursultan Nazarbayev in Kazakhstan, Karimov was secretary of the Communist party of the Uzbek SSR before he became President of an independent country. In sharp contrast to Nazarbayev, who lobbied the other Central Asian leaders to sign a new Union treaty in 1991, Karimov was the first politician in the region to lead his country towards more economic and political independence from Russia and the other former Soviet republics (Olcott, 1992).

While the political conditions in Kazakhstan were initially liberal in some aspects and became more authoritarian over the next two decades, there is no similar development in Uzbekistan: Virtually since its beginnings, the regime of Karimov has been highly authoritarian. While some secular and Islamic opposition groups emerged after 1989, they were quickly suppressed by the Uzbek security services in the first years of independence (Pannier, 2011). According to the Freedom House indicators, both countries have consistently belonged to the category of countries that are “not free” from 1992 till today. However, the evaluation of both political rights and civil liberties was even worse for Uzbekistan than for Kazakhstan in every single year (Freedom House, 2011).

Whereas Kazakhstan closely followed the transition approach of its northern neighbor in the 1990s, Karimov took a much more independent stance. Already in 1992, he criticized the economic policies pursued by the other former Soviet republics in a publication titled *Uzbekistan: Its Own Road to Independence* (Hiro, 2009, p. 148–149). The economic policy approach that Uzbekistan pursued in the following years was indeed quite different from that of Russia or Kazakhstan. In his first years as the leading political figure of Uzbekistan, Karimov apparently embraced first a Turkish model of development before switching towards a Chinese model of development without specifying whether “Chinese” referred to the People’s Republic or to Taiwan (Olcott, 1992, p. 127). According to Spechler (2004, p. 73), Karimov then opted for “a development model independent of outsiders and loosely modeled after Korea and other Asian states”. Later, the Uzbek leadership stressed the singularity of Uzbekistan by consistently referring to the “Uzbek model” (Gulyamov,⁵ 2011, p. 374; Pomfret, 2000, p. 734).

It is an interesting question whether the even more authoritarian stance of Karimov when compared to Nazarbayev and the more independent approach towards economic transition has been the result of differing constraints or of differing ideologies. Theoretically, the path of institutional change is determined by the preexisting formal and informal institutional environment, the bargaining process between different organizations trying to promote their interest, exogenous factors (in particular the geo-political environment), and the ideologies of economic actors as shaped by their mental models of the world. In the case of Kazakhstan and Uzbekistan, it seems apparent that the ideologies of critical actors – Nazarbayev, Karimov, and a small number of other individuals – may have had an extraordinary influence on the institutional development. Another important question would be whether the more authoritarian

⁵ Ravshan Gulyamov was Minister of Economy of Uzbekistan October 2010 till august 2011 and is now Minister of Foreign Economic Relations, Investments and Trade.

stance of Karimov when compared to Kazakhstan or Kyrgyzstan and the Uzbek transition strategy were dependent on each other.

In several ways, Uzbekistan faced more favorable conditions for independent statehood in the early 1990s. Uzbekistan had been subject to much less *Russification* than its northern neighbor in terms of both immigration and cultural influence (Clem, 1992). It does not have a common border with Russia. While some minorities, especially Tajiks and Russians, are present in Uzbekistan, the titular nationality has a clear majority on the national territory: according to the 1996 census, Russians and Tajiks each amount to around 5% of the population while Uzbeks make up around 70% (CIA, 2011).⁶ While significant emigration of Russians took place after independence,⁷ this issue was far less important for Uzbekistan than for Kazakhstan, due to the much smaller share of the Russian population. Furthermore, the sedentary history of Uzbeks with longer traditions of statehood could be seen as an advantage for the emergence of a new, independent country.

In this way, Karimov may have seen less necessity to follow either the transition strategy of Russia or the policies recommended by international organizations too closely. However, he faced two other important and interrelated constraints that have decisively shaped his policies since independence: one the one hand the common border of Uzbekistan with Afghanistan and Tajikistan and on the other hand threat of political Islam. In contrast to Kazakhstan, Islamist groups have been by far the most important opposition groups in both Uzbekistan and Tajikistan (Malashenko, 2005, p. 6). In Tajikistan, political Islam was an important factor in the civil war of the 1990s (Hiro, 2009) and Afghanistan came under the control of the Taliban shortly after the independence of Uzbekistan after several years of civil war.

During the formation of an independent Uzbek state, several opposition groups emerged. An important issue in this context was the emergence of Uzbek nationalism, which led to severe inter-ethnic tensions and bloodshed between the titular ethnicity and several minorities in 1989 (Hiro, 2009). Stopping these conflicts was one of Karimov's first objectives after being appointed party secretary by Gorbachev and one of the immediate measures was a ban on public meetings and slowing the democratic process (Hiro, 2009). At the same time, Islamic opposition groups emerged, which at least partly maintained close relationships with the Taliban in Afghanistan (Fredholm, 2003). Karimov attempted incorporated nationalist and religious

⁶ While official census figures put the Tajik population at around 5%, Tajiks themselves claim that is much higher and amounts to 25-30% (Foltz, 1996, p. 213).

⁷ According to Hiro (2009, p. 36), Russians formed 11% of the population of the Uzbek SSR in 1989.

feelings in a moderate way in his policies, while beginning to suppress both secular and Islamist opposition groups (Hiro, 2009; Stevens, 2007). Spechler (2000, p. 295) characterized Uzbekistan's transition strategy by the phrase "stability at all cost". While he was referring first and foremost to the economic policy approach pursued by Karimov, this statement is apparently also true for the political sphere.

This also refers to the international context. Martin and Dina Spechler argue in a joint paper (2010, p. 159):

The chief objective of Uzbekistan's foreign policy since the country's independence in 1991 has been to preserve internal stability for its super-presidential, authoritarian regime. Preventing unwelcome interventions or pressures from outside actors has been instrumental to this goal, as has been recognized for some time.

As Nazarbayev, Karimov has attempted to balance the relationships of Uzbekistan with foreign powers in a way that does not make it too dependent on one partner. However, the international relations of Uzbekistan with other countries have been in all cases, much more distant than those of Kazakhstan. The Bertelsmann Foundation characterized the foreign policy of Karimov as unpredictable for the international community (Bertelsmann Foundation, 2009b). While Uzbekistan is member of several international organizations such as the OSCE, IMF, or the SCO, this has not necessarily affected domestic and economic policies. The IMF withdrew its permanent representative without replacement in 2001 as a result of Uzbekistan's violation of its obligations as a member of the fund (Spechler, 2003). In particular in the first years of independence, Karimov embraced close relations to Western countries, especially to the United States, to show his intention to break the ties to Russia (Pannier, 2009). His stance as an adversary of the rise of political Islam may have helped him to maintain comparatively good relations with Western democracies (Pomfret, 2000), in spite of the authoritarian nature of his regime. This was particularly true after the terror attacks in 2001, when the Taliban regime became the center of international attention (Gleason, 2006). However, Karimov turned to Russia and China after Western criticism of his repressive measures towards uprisings in Andijan in the year 2005. Most offices of Western media and NGOs were closed, the US forces stationed in Uzbekistan were asked to leave within six months. The relationship with the West warmed again to some degree after 2008 (Pannier, 2009; Gleason, 2006).

The political conditions in both the domestic and the international sphere have certainly shaped the Uzbek economic policies of the last two decades in a variety of ways. Karimov's aim to stay in tight control of political affairs would have been hardly compatible with a thorough economic liberalization based on free private enterprise. In contrast to Nazarbayev, he saw

apparently no reason to follow the Russian transition strategy too closely. The fact that the Uzbek government at referred to a variety of foreign countries as possible reference models could be interpreted as evidence for a relatively large decision-making freedom in economic policy making. Yet, all the mentioned approaches have a strong role of the state relative to the private sector in common, which would in principle consistent with the political conditions in Uzbekistan.

While the exogenous conditions and the power struggle between different groups in the first years of independence seem to have had a crucial influence on the political and economic transition of Uzbekistan – and consequently on its institutional environment – one might also argued that ideologies, in particular the ideology of Islam Karimov, was important. As a Soviet-trained economist, he was much less inclined than Nazarbayev to embracing foreign advice and a complete makeover of the economy in a shock therapy from the beginning (Blackmon, 2005). The government kept tight control over the most important Uzbek exports, namely cotton and gold, instead of privatizing rents as in Russia and Kazakhstan. The resulting revenues were used to maintain the education and healthcare system to a higher degree than in other former Soviet republics (Pomfret, 2000).

The good economic performance of Uzbekistan in the 1990s has led to a challenging situation for Western observers and economists, who had to explain the economic success of a country that rejected commonly accepted policy recommendations while criticizing the political conditions. The less successful economic development in the second decade of independence, in particular when compared to Kazakhstan, alleviated this ostensible conflict. Perlman and Gleason (2005) note several positive aspects of Nazarbayev's regime in Kazakhstan. In contrast, their evaluation of Uzbekistan is much more negative. They argue that the Uzbek transition strategy has been “‘piratical’ wherein macro economic and administrative reforms are purely subterfuge and reform aims to direct both internal and external resources to the ruling elite no matter what the effect on the economy or government efficiency” (p. 101).

If this analysis reflects the reality, Uzbekistan should obviously be characterized as a predatory state. However, some doubts remain. Uzbekistan continues to spend a relatively high share of public revenues on education and the health care system (Spechler, 2008a, p. 41). Furthermore, the fact that Uzbekistan had the best economic performance of all formerly Soviet republics during the 1990s should not be forgotten. At the end of this decade, Pomfret noted that the Uzbek government did not invest in grandiose, representative projects such as the new Kazakh capital, Astana, or the new presidential palace of Turkmenistan. A nouveau riche class did not emerge to the same degree as in other former Soviet republics (Pomfret, 2000, p. 745).

In 2003, Pomfret even argued that “Government intervention, apart from the controls on cotton and wheat, tends to follow a version of the Asian developmental state model” (p. 22). Perlman and Gleason’s statement above is from 2005 – in the light of the notable continuity of political conditions, it would be surprising if Uzbekistan had become thoroughly predatory state so quickly. A more detailed analysis of the way the Uzbek state interacts with the economy is needed in order to get a better picture of its characteristics.

The state-business nexus

As has been noted in the previous sections, both the Uzbek leadership and outside observers have made references to other economies, in particular the successful East Asian economies, when describing the Uzbek approach to economic transition. However, it is subject to serious doubt whether significant similarities really exist. Even though Pomfret (2003) also made favorable comparisons between Uzbekistan and East Asia, he had argued earlier (2000, p. 734):

In the early 1990s the new government frequently invoked the Chinese model or the South Korean model as its blueprint for gradual reform leading to rapid economic growth. In fact, policies bore little relation to China’s strategy of agrarian reform plus opening of the economy followed by a hands-off approach to new enterprises, and even less resemblance to Korea’s market economy.

It is certainly true that Uzbekistan’s economic policy has been far from a hands-off approach. The lack of resemblance to South Korea is less evident: This country underwent profound institutional changes during from the beginning of its economic catch-up in the 1960s till today. There is hardly any doubt that South Korea was a market economy by most standards in 2000, when the statement above was published. However, the significant amount of control over the private sector that the South Korean government had exercised in the early decades of fast economic growth make such a characterization more ambiguous.

After the first years of independence, the Uzbek government under Karimov essentially stopped comparing its economic strategy to the East Asian, Turkish, or other approaches. Instead, the singularity of the “Uzbek model” of economic development was continuously stressed. According to its official definition, this model rests of five core principles:

- (1) De-ideologization of the state system and priority of economy over politics.
- (2) The state takes on the role of a principal reformer.
- (3) The law is equal for everyone.

- (4) Step-by-step and gradual implementation of reforms.
- (5) Implementation of a strong social policy during the transition period from one system to another

In several aspects, these principles do appear to have been inspired by the experience of other countries. The first principle of de-ideologization of the state system is reminding of Chalmers Johnson's (1982, p. 18) characterization of the Soviet system as *plan-ideological* and of the developmental state as *plan-rational*. However, it may also be interpreted as a rejection of Western recommendations based on a positive, functional interaction between democracy and economic growth: Apparently "priority of the economy over politics" refers to the priority of economic performance over democratic reforms. Since one common definition of a developmental state is that it "establishes as its principle of legitimacy its ability to promote and sustain (...) steady high rates of economic growth and structural change in the productive system" (Castells 1992, p. 56), this prioritization is clearly with the East Asian comparison. The same is true for principle two, which stresses the pivotal role of the state in the economy. Whereas principle three is generally uncontroversial in the discourse on economic development, principle four is reminding of the gradual transition strategy of the People's Republic of China. Principle five is essentially a pledge that the state's policies will protect its citizens from the social hardships taking place in other transition countries.

The key issue is of course to which degree and in which way these principles have been followed in practice. The existing publications on the Uzbek economy can give some insights on this issue. Nevertheless, the limited scope of research – which is at least partly due to the difficult political conditions and the general intransparency in the country – inherently leaves some questions open.

The most striking characteristic of the role of the state in the Uzbek economy is its continued and profound involvement in it. As asserted by Libman (2010), the hierarchical structure of the Soviet economy was basically maintained in Uzbekistan. Libman (2010, p. 56) summarizes:

Although the beginning of the 1990s witnesses a rapid small-scale privatization (...) the government still maintained control over the largest enterprises and the most attractive assets (...) 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. (...) Uzbekistan has also extremely low acceptance of privatization among population even among other post-Soviet countries with their (...) legitimacy problems for property rights, especially those of large business (Капелюшников 2008). (...).

Similarly, Repegather and Troschke (2006) argue that the de facto state-controlled sector is so prominent in Uzbekistan that truly private companies only have a subordinate or complementing role. Continuously since independence, the Uzbek government has not considered private business to be the engine of economic growth.

While the independence of the domestic private sector has also decrease in Kazakhstan over the last decade, there is another crucial difference that has to be noted: the much lower importance of foreign direct investment for Uzbekistan (Spechler, 2000). Of course, the foreign investment in Kazakhstan was mostly limited to the natural resource and energy industry, strategic sectors that remained mostly under state control in Uzbekistan. Indeed, Repegather and Troschke (2006) argue that the Uzbek government has considered virtually all sectors in the economy as strategic, because it is deeply involved in agriculture (in particular cotton), manufacturing industries, trade, the financial sector, and other areas. Even though there had been some industrialization in Uzbekistan, it was less industrialized than Kazakhstan when the Soviet Union dissolved and agriculture has continued to contribute very substantially to the Uzbek GDP. Foreign investors do play an important role in some non-critical sectors; examples include tourism and retailing of important consumer goods such as soft drinks and cigarettes (Libman, 2010; Spechler, 2000). However, there are some exceptions from this rule: The South Korean companies Samsung and Daewoo carried out major investments in the production of electrical equipment and vehicle assembly, respectively. As it seems, these investments were markedly influenced by the Uzbek government, who preferred the South Korean investors over their competitors from Western countries (Spechler, 2000).

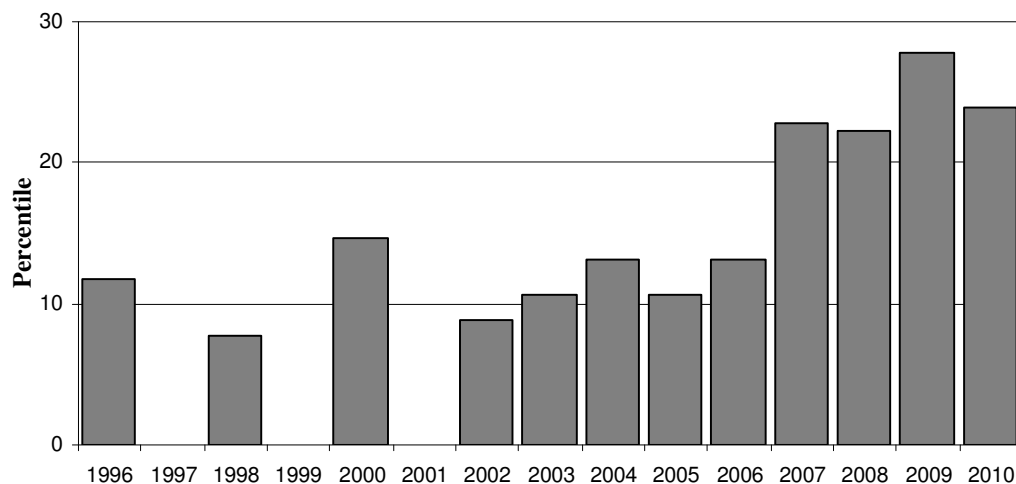
As a consequence of the very dominant role of the Uzbek state in the economy, the institutions and organizations governing the state-business nexus take a different form than in economies with a stronger private sector. Even in de jure private companies with a state-ownership significantly below 50%, state-appointed representatives seem to interfere with operations to a notable degree (Repegather and Troschke, 2006). However, it is unclear which institutions and incentives these representatives face and what objectives are pursued through this profound involvement. As Libman (2010) claims, most influential businessmen in Uzbekistan do actually not have formal claims on assets (since these continue to be state-owned), but came to control specific sectors of the economy through close ties with the president. Repegather and Troschke (2006) argue that the government authorities do not control the companies too tightly in their day-to-day business, which is largely left to the respective managers. However, the state does have ability to impose decisions on the companies if it is deemed appropriate.

Due to the lack of a substantial private sector in Uzbekistan, formal associations that could serve as viable communication channels between the government and private business have hardly been analyzed in scientific publications on the region. Among the most important associations at the junction between business and government is the *Chamber of Commerce and Industry of Uzbekistan*. By its own account, the mission of this organization includes the representation of the interests of the rights of Uzbek entrepreneurs as well as the attraction of foreign investment in modern manufacturing industries (Chamber of Commerce and Industry of Uzbekistan, 2011). It is very hard to determine to which degree these objectives are actually and pursued According to Reppegather and Troschke (2006), industrial associations in Uzbekistan are clearly dominated by the state and only serve as an instrument for the implementation of industrial policies. However, there is hardly any research on this issue, and there is neither any apparent and strong evidence for this claim nor for other opinions.

The public administration

As in the case of Kazakhstan, the World Governance indicator for *government effectiveness* can serve as a starting point for the analysis of the Uzbek public administration. The development of this indicator for Uzbekistan is illustrated in Figure 4. As Kazakhstan, Uzbekistan improved its evaluation in this indicator notably since it was first compiled in 1996. However, the development was clearly less impressive than in Kazakhstan. While both countries were at a similarly low level in 1996, Kazakhstan ranked only slightly below the average of countries in 2010. In sharp contrast, Uzbekistan only managed to improve from being evaluated better than roughly 10% of the evaluated countries to ranking above 25% of the countries. Moreover, the development in Uzbekistan has been less consistent than in Kazakhstan, which showed an almost continuous improvement concerning the government effectiveness indicators since 1996.

Figure 4: Government effectiveness in Uzbekistan measured by the World Governance Indicators



Source: World Bank (2011).

Notes: “Percentile” refers to the percentage of countries that rank lower than Uzbekistan in a given year. The Worldwide Governance indicators were not compiled for years before 1996 and only on a two-year basis between 1996 and 2002.

In some ways, this result is surprising because there have been several accounts that stressed the superiority of the Uzbek bureaucracy over its counterparts in the other Central Asian republics. Reppegather and Troschke (2006) have argued that Uzbekistan was one of the first transition countries that quickly developed an effective way of collecting taxes on businesses. This enabled the Uzbek state apparatus to achieve a comparatively sound basis of revenue in order to maintain public spending and investment at a high level in the initial years of transition. However, the most prominent advocate of the view that the quality of Uzbekistan’s public administration represented an advantage over the other Central Asian countries has been Richard Pomfret (2003, p. 22; 2007, pp. 330-331; 2010a, pp. 451-452; 2010b, p.13). As he summarized in a recent paper (Pomfret, 2010b):

Uzbekistan inherited the most effective administrators in the region. The physical infrastructure, including both the domestic transport network and the irrigation canals crucial to the cotton economy, was relatively well kept up. Corruption was, and still is, widespread in all of Central Asia, but available evidence suggested lower levels in Uzbekistan than in the other four countries, implying more effective central control and (admittedly by the low standards of the region) a relatively high sense of public service (p. 13, footnotes omitted).

The statement that Uzbekistan inherited the administrators hints towards the Soviet legacy of the country and in particular to the position of Tashkent as the regional administrative capital of Soviet Central Asia (Pomfret, 2010a, p. 451). However, Pomfret does not rule out that “good technocratic leadership” (2003, p. 22) also had a positive influence on the bureaucratic capacity of Uzbekistan.

The interesting question in this context is to find out whether the evaluation of the World Bank’s indicator for government effectiveness actually represents a contradiction to the arguments of Pomfret and other scholars. First of all, it has to be noted that the accounts that stress the positive aspects of the Uzbek public administration mostly focus on achievements in the early years of transition. In these years, the legacy of the Soviet Union had certainly a predominant influence on the quality of the bureaucracy in all newly independent Central Asian republics. It seems plausible that this legacy was more positive in Uzbekistan than in the neighboring countries, at least in terms of the capacity to implement decisions taken at the higher levels of the hierarchy. However, the worldwide governance indicators were compiled for the first time in 1996, several years after the Soviet Union dissolved. At this time, Kazakhstan and Uzbekistan were evaluated roughly equal. Kazakhstan then gained a remarkable advantage beginning in 1998 (see Figures 3 and 4). It may be the case that any advantage that Uzbekistan might have had in the early 1990s had basically disappeared until 1996, which would explain this evaluation. Furthermore, it is hardly subject to doubt that Kazakhstan has been more reformist since then, first and foremost in the years from 1996 till 2003. Spechler (2008b) refers to this period as Uzbekistan’s “lean years” and describes them as a retreat from the limited reforms that had been implemented earlier.

However, one should also keep in mind that no evaluation of bureaucratic capacity or government effectiveness is entirely objective. The Worldwide Governance indicators are meta-indicators based on a range of other evaluations, each representing a specific approach. These approaches are in several aspects reflective of certain underlying perspectives and assumptions of the organizations providing the evaluations. One example is the World Bank’s inclusion of the public administration’s independence from political pressures as one relevant attribute for the government effectiveness indicator. There are certainly good reasons for that. In some East Asian countries such as Singapore, the de-politization has been considered a key characteristic of its effective public service. However, it was noted in this study’s section on East Asia and in particular in the case of Taiwan that a complete freedom of political influence was not given in all developmental states.

Similar issues also arise in other analyses of the Uzbek public administration. In a paper on recommendations for public administration reform in Uzbekistan, Ergashev et al. (2006, pp. 32–33) base their conclusions on the following arguments:

First, *administrative management methods are incompatible with the efficient functioning of a market economy. (...) Second, active government intervention in the economy and the use of administrative methods hamper market reforms and the development of private enterprise* (italics in original).

This line of argument shows that their assessment of the reform need for the Uzbek public administrations relies on economic schools of thought that generally perceive state intervention as harmful to development. Their analysis is thus not only focused on the public administration's effectiveness and efficiency, but also emphasizes its adequate role in the economy in a normative way. Other evaluations may implicitly be based on similar thinking. This is of course not an issue if liberal economic policies are indeed considered to be the best choice for developing and transition countries. However, it might be an issue if the best policies are not the ones recommended by the Washington-based international organizations, but the ones pursued by developmental states in the past.

Of course, this does not mean that criticism of the Uzbek bureaucracy from international organizations and liberal economists generally not valid. Ergashev et al. (2006) argue that a variety of conditions exist that clearly lead to the need for reform, independently of the theoretical perspective the observer takes. In particular, they assert that narrow departmental and group interests play an increasing role within the bureaucracy. Furthermore, the public administration is subject to frequent reorganization while an integrated regulatory framework for operation of executive agencies is missing.

Overall, it is very hard to give a clear evaluation of the bureaucratic capacity in Uzbekistan. For Spechler (2008b), the quality of the bureaucracy seems to be the key impediment for a successful implementation of economic policies inspired by the East Asian developmental states. As he argues:

Examples of the newly industrializing countries of southeast (*sic*) Asia are often cited in defense of state-guided development and export promotion, but those countries' success seemed to depend upon the existence of an honest and efficient bureaucracy ready to guide business into the proper channels with suitable rewards. (...) Below the top echelons, by contrast to those in Singapore and Taiwan Uzbekistan's new civil service has been overworked and poorly paid, increasing both turnover and temptations to exploit one's position. Corruption and state capture prevent the kind of cooperation between business and government which allowed the "tigers" of southeast (*sic*) Asia to manage their export-led growth efficiently. (...) Anecdotal and survey evidence of bribe-taking by government inspectors generally confirms the unsatisfactory reputation of Uzbekistan's bureaucracy.

These statements obviously suggest that the Uzbek public administration would not have the capacity to follow the example of the developmental states, even if the government headed by Karimov had a firm commitment to economic development as its key priority. In contrast, the most recent country study of the Bertelsmann Foundation (2009b, p. 19) suggests that the government would have the capacity to concentrate the necessary resources for strategic reforms. From this perspective, it is the lack of commitment of the leadership and its focus on personal enrichment that has forestalled the implementation of reforms.

The current minister of economy, Gulnara Saidova, stipulated at a conference in June 2010 that nine “high tech industries” have been established in Uzbekistan as a consequence of activist policies (Saidova, 2010, p. 10).⁸

5. CONCLUSION

The preceding sections represented a brief summary of the economic literature on Central Asia focusing on the questions to what extent developmental states have emerged in that region. The knowledge we have on the five Central Asian countries concerning this question is quite limited. This is on the one hand due to the relatively intransparent conditions in all five countries, even though the level of transparency does differ to a significant degree. On the other hand, Central Asia is simply under-studied compared to other regions. This is particularly true in comparison to East Asia, whose economic rise has resulted in innumerable scientific studies in economics and related fields. But it is also true compared to other regions such as Sub-Saharan Africa or Latin America that have been within the focus of Western economists and observers for a longer time.

The most important issue that has to be analyzed in more detail for the Central Asian countries is the alignment of formal rules, official announcements, and de jure procedures with informal institutions, actual policies, and de facto practices. The existing literature deals with this issue to some degree, but it has clear limitations. In order to better answer the research question, more knowledge about the reality of transition and reform processes in Central Asia is needed. The differences between the East Asian developmental states and the three smaller

⁸ The specified industries are: car industry, petrochemical industry, electrical engineering, oil and gas machinery, railway machinery, textile industry, construction materials industry, pharmaceuticals, and furniture production (Saidova, 2010).

Central Asian countries are very apparent. Therefore, Kyrgyzstan, Tajikistan, and Turkmenistan were not the main focus of this paper. In contrast, Kazakhstan and Uzbekistan seem to share at least some characteristics with the successful East Asian economies. Moreover, the presidents of both countries have made reference to East Asian countries in their speeches and announcements on the economic strategy of their governments. This is not surprising given the almost unprecedented achievements of the most successful developmental states in East Asia and the fact that all governments are commonly ready to express their commitment to economic development. However, it is clear that their factual commitment to this goal differs. It is inherently difficult to assess the commitment of a government or a political leader to economic growth by any possible means. Obviously, the economic performance of a country is influenced by manifold factors. Among these factors is the choice of the appropriate economic policies. Of course, even a government that is highly committed to economic development might choose policies that are inadequate.

Both in Kazakhstan and in Uzbekistan, there have been some changes in economic policy over the last 20 years. However, these changes were arguably more profound in Kazakhstan, which shifted from a comparatively liberal approach to economic transition towards more state control. As a result, the similarities between Kazakhstan and the East Asian developmental states seem to have become more notable over the last decade. In the state-business nexus, several formal structures that are reminding of the East Asian state-led development approach are in place. Yet, it is hard to determine through the existing literature which functions these structures actually perform. Specifically, it is questionable whether the leading role that SamrukKazyna assumed in the Kazakh economy over the last years is developmental or whether it serves other, possibly predatory objectives. The same is true for intermediate organizations such as Atameken. Since there is hardly any research on this organization, it is hard to evaluate whether it is a functioning tool of participation in the state-business nexus or not.

In the case of Uzbekistan, the difficult and intransparent conditions in the country have led to even less economic research on relevant aspects. The difference between formal rules and de facto practices seems to be even bigger than in Kazakhstan, which results in a very limited validity of any research that does not have an empirical basis. In the 1990s, it seemed that the Uzbek government and its public administration had found a comparatively successful way of managing the economy through following a gradual approach to transition and maintaining investment in public goods at high levels. The increasing isolation of the country and the abandonment of some previously implemented reforms have cast severe doubt on this

perspective. Nevertheless, it does not seem to be reasonable to characterize the Uzbek state as purely predatory. To get a better picture of the realities of economic development in Uzbekistan, one would have to analyze the informal institutions that shape the interaction of different administrative levels and economic actors.

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