

# Uzbekistan

<b>Status Index</b> (Democracy: 3.13 / Market economy: 3.79)		<b>3.46</b>	<b>Management Index</b>		<b>2.17</b>
<b>HDI</b>	0.694		<b>Population</b>	25.8 m	
<b>GDP p. c. (\$, PPP)</b>	1,744		<b>Population growth<sup>1</sup></b>	2.2%	
<b>Unemployment rate</b>	n/a		<b>Women in Parliament</b>	16.4%	
<b>UN Education Index</b>	0,91		<b>Poverty<sup>2</sup></b>	27.5	
			<b>Gini Index</b>	26.8 (2000)	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (2000), source: The World Bank: World Development Report 2006.					

## A. Executive summary

In the early 1990s, the leadership of Uzbekistan adopted an unique strategy of political and economic transition. By proclaiming to follow a gradual transition toward a market-oriented democracy, the country's leadership postponed urgently needed reforms. As of the end of the observed period, economic decline and political stagnation were becoming more serious, threatening internal stability and undermining regional security.

Uzbekistan is a non-democratic regime. The country's constitution provides for a presidential system with a formal separation of powers among the executive, legislative, and judicial branches. It also sets forth guarantees of fundamental civil rights. In practice, however, the executive branch, under the leadership of President Islam Karimov, dominates all aspects of political life. It exercises extensive control over civil society, religious groups, political parties and movements. Opposition parties are systematically denied registration. Media freedom is nonexistent. The judiciary is not independent. Torture is widespread in the country's pre-trial and post-conviction facilities.

The economic system has hardly been reformed since the Soviet period. It lacks any orientation to a market economy. In order to promote economic stability and equality, the government subsidizes employment, controls prices on essential items, privatizes large enterprises only gradually, and is attempting to attain self-sufficiency in energy and food supplies. State intervention dominates in all economic sectors. There are excessive constraints on private business. For the most part, the government controls foreign trade. By imposing excessive licensing and certification requirements for retail and wholesale traders and high customs tariffs, the leadership is pursuing a

policy of import substitution, which furthers the country's dissociation from the world market.

The political leadership cooperates selectively with neighboring states. Conflicts over natural resources, energy supplies and border security issues prevail. By trying to make itself into the role of regional leader, Uzbekistan gives rise to discomfort among those neighbors whose armies and economies do not have the same strength.

Since 2001, Uzbekistan has held a strong security relationship with the United States, which has its troops stationed in the country. Continuing pressure from the United States regarding political and economic reforms, however, made the country's political leadership turn to other regional super powers that did not link assistance to political conditions. Since the beginning of 2004, it has pursued a foreign policy with several approaches. Russia, Japan and China became key strategic partners.

Since 2001, the state's monopoly on the use of force has eroded. Multiple attacks occurred in Tashkent and Bukhara in late March and early April 2004. Suicide bombers mainly directed police and Uzbek private and commercial facilities. In July 2004, three suicide bombings occurred in Tashkent. Bombs exploded in the front of the American and Israeli Embassies, and at the Prosecutor General's Office in Tashkent. Supporters of extremist groups such as the Islamic Movement of Uzbekistan, Al-Qaeda, the Islamic Jihad Group, and the Eastern Turkistan Islamic Movement were thought to be responsible for the attacks. Further attacks against foreign embassies, hotels frequented by Westerners and other foreign institutions are expected.

## **B. History and characteristics of transformation**

Uzbekistan became an independent state as a result of the disintegration of the USSR in 1991. In the first years of independence, President Karimov, the former head of the Uzbek Communist Party during the Soviet period, pledged to set the country on a path toward democracy, free market economic relations, and the rule of law in a secular state. Fundamental human rights were written into the constitution.

By 1992, a significant political opposition had emerged within Uzbekistan, fuelled by popular dissatisfaction with stagnating incomes, excessive government intervention in the economy, and increased corruption among government officials. In response, the Uzbek government began isolating and neutralizing opponents of the regime, branding them as criminals, Muslim extremists, and terrorists. Mass arrests followed and international human rights organizations subsequently reported numerous

violations of human rights at the hands of law enforcement authorities. By the end of the 1990s, there were said to be some 5,300 to 5,800 political prisoners and prisoners of consciousness in Uzbekistan.

During the first decade of independence, perceived threats to the state and to the well-being of its citizens determined government policy. Despite repeated government assurances that it was seeking to introduce democratic reforms, it was in fact consolidating its authoritarian regime. Only government-approved political parties and non-governmental organizations (NGOs) were allowed to work. Institutions that did not conform to the government faced difficulties, from searches by tax inspectors to intimidation by the security services. All elections held up until now have been neither free and fair, nor equal and transparent. In the elections to local councils, the parliament and the presidency, no opposition candidates and political parties have been allowed to run.

Since independence, the government has consistently reaffirmed its commitment toward a gradual transition to a free market economy, but has been extremely cautious in moving to a market-based economy. It has emphasized self-sufficiency in energy and food grains, the export of primary commodities, particularly cotton and gold, and the creation of an internally oriented services market. Fundamental reforms in agriculture, state enterprises, state procurement, and the financial sector, including foreign exchange, have been postponed indefinitely, leading to an increasingly precarious economic situation.

Throughout the 1990s, Uzbekistan played a minor role in world politics. The abrupt changes in international relations that followed the September 2001 terrorist attack on the United States and the subsequent formation of an Anti-Terror-Coalition altered Uzbekistan's role in international affairs and affected its internal politics. The government allowed Germany and the United States to station their troops in Uzbekistan in the hope of gaining international recognition and financial support for its "Uzbek path." International pressure on Uzbekistan to commence political and economic reforms increased. The Uzbek government felt compelled to make minor concessions.

In 2002, the regime allowed registration of a leading human rights group, announced amnesties for political prisoners, and increased its participation in international organizations. And in 2003, it finally accepted obligations under Article VIII of the International Monetary Fund (IMF) Articles, which led to the establishment of full current account convertibility.

However, this positive trend was halted in late 2003 after the "velvet revolution" in Georgia. With parliamentary elections scheduled, the Uzbek government tightened

the control over institutions that might have been able to contribute also to a “velvet revolution” in Uzbekistan. International organizations were requested to reregister, leading to a closure of the Open Society Institute in Tashkent. Local NGOs were forced to comply with extensive reporting procedures and tight financial controls, which had the effect of making the few remaining NGOs shut down. On December 26, 2004 and January 9, 2005, elections to the two-chamber parliament took place without any disturbances at the expense of modest progress made in 2002 and 2003.

## **C. Assessment**

### **1. Democracy**

#### **1.1. Stateness**

State monopoly on the use of force is established nationwide in principle, but is not completely functional. Some functional organizations use violent means to undermine the state’s monopoly on the legitimate use of force, including Islamist groupings involved in the 2004 bombings and informal networks based on family-kinship, communal and regional affiliation, and corporate interests.

According to the constitution, all ethnic groups are entitled to cultural self-identification, use of their native language, and the right of association. However, political organizations based on ethnic criteria are discouraged, and none are registered as political parties in Uzbekistan. Selected ethnic (e.g. Tajik) and religious (e.g. Baptist) minorities are denied basic civic rights.

While the state is secular according to constitution, religious dogmas have considerable influence in some segments of politics. Government-interpreted Islam is a fundamental part of the official doctrine of Uzbekistani stateness. While religions that do not conform to the government (including different types (sects?) of Islam as well as non-traditional Protestant, Jehovah's Witness, and Hare Krishna religions) do not play any significant role in the official script of the government doctrine, they do play a de facto role. Because they are perceived as threats to the country’s stability, they are kept under surveillance and their members are persecuted.

The state’s fundamental infrastructure extends throughout the entire territory of the country, but its operation is deficient. State employees – particularly judges, policemen, prosecutors and customs officers – are perceived as executing their functional duties only upon reception of “fees.”

## **1.2. Political participation**

General elections are held and accepted in principle as the means of filling leadership positions. The last presidential elections were held in January 2000; almost 92% voted for the incumbent president, Islam Karimov. Legislative elections took place in December 2004 and January 2005. Pro-presidential parties, particularly the Liberal Democratic Party of Uzbekistan, received the majority of the seats. Both elections failed to comply with international standards of free, fair, equal and transparent elections.

The president, as the key political figure among the elected rulers, has the power to govern in principle, but individual power groups (regional networks closely affiliated with corporate groupings) can set their own agendas and enforce special interest policies against the state. Informally organized regional and corporate networks have the power to undermine constitutionally defined procedures without questioning the system overall. They can veto the results of democratic decisions and retain prerogatives, which elected decision makers are not empowered to challenge (e.g. currency regulations and import taxation).

Relevant opposition parties, such as Birlik, Erk and Ozod Dekhkanlar, are systematically denied registration. During the 2004-2005 parliamentary elections they were blocked from acting as political parties or fielding independent candidates. Freedom of assembly is not assured by the state. Demonstrations frequently staged during 2003 and 2004 by an increasingly dissatisfied population were quickly dispersed, and picketers were temporarily detained.

Civil organizations are permitted to act as long as they support the regime or are not outspokenly critical of it. In 2004, government regulations tightening control over the financial and human resources of nonconformist organizations, as well as their programmatic activities, forced many to cease operation. There is no freedom of opinion or of the press in Uzbekistan. Although the government officially eliminated state censorship in May 2002, harassment of journalists and self-censorship persist. Public debate over government policies remains limited. The print and broadcasting media is vulnerable to massive government intervention, distortion and manipulation. The Internet – despite government attempts to exert censorship here as well – remains the only room for public debate, but is used by very few people in the country.

## **1.3. Rule of law**

Separation of powers exists only in principle. The executive has an ongoing and formally- acknowledged monopoly position on power, which includes de facto

jurisdiction over other powers, even if they are institutionally differentiated.

The judiciary is institutionally separate in principle, but its decisions and doctrine are subordinated to the executive in practice. All high-ranking judges are elected by the Senate upon the president's recommendation, while all lower-ranking judges are appointed and dismissed directly by the president. The judiciary is severely restricted by functional deficits – not only the dependency of judiciary personnel on the executive, but also inadequate funding of the courts, and low qualification among a significant number of judges – which contribute to corruption among the judiciary.

Officeholders exploit their positions for private gain. Corrupt officeholders are prosecuted under the law only when they attract adverse publicity or when pressure from the international community increases.

The enforcement of formal civil liberties stated in the constitution is highly arbitrary, and dependant largely on political influence, financial power and the network connections of the person being prosecuted. Civil rights of the majority of the population are systematically violated.

#### **1.4. Stability of democratic institutions**

Uzbekistan is a non-democratic regime. Its “democratic institutions” are part of an authoritarian regime. The president's position is key; as head of the state, he defines the government's policy and supervises its implementation by the executive branch. Key executive institutions, including the Cabinet of Ministers and the governments (Hokimats), are both dependent on the president because he appoints and dismisses the ministers and hokims. Their function is to implement the policy directives of the presidential apparatus. The parliament, the Oliy Majlis, is assigned the responsibility of defining the major direction of internal and external policies. Because most parliamentary deputies are appointed in practice by the president and the hokims, they also follow the directives of the presidential administration in policy issues. Therefore, the future of political and economic reforms in Uzbekistan depends on the president and his apparatus.

Actors outside state structures hold veto powers. Informally organized corporate and regional networks have the power to deviate from constitutionally defined procedures without questioning the system. They are able to veto the results of parliamentary decisions and retain prerogatives, which elected decision makers are not empowered to challenge, such as currency regulations and import taxation.

### **1.5. Political and social integration**

The party system appears stable and moderate, characterized by moderate fragmentation, relatively high polarization, and moderate voter volatility. However, it is not socially rooted.

All five registered parties strictly follow the government line. The Liberal Democratic Party of Uzbekistan (LDPU) is the dominant party. Other registered political parties include the People's Democratic Party, the Social Democratic Party "Adolat" (Justice), the Democratic "Milli Tiklanish" Party (National Rebirth), and the National Democratic "Fidokorlar" Party (Self-Sacrificers). Because all parties are created and controlled top-down, they are not socially rooted, lacking both broad consent from the population and extensive links to civil society. Representing corporate and regional networks, these parties are predominantly involved in lobbying for their own interests with the president. Co-opted to the system established by the president, they are not interested in playing an autonomous role in forming political opinions or will, nor are they involved in mediating between society and the state.

At the other end of the party spectrum, there are four opposition parties that have consistently been denied registration. While *Birlik* and *Erk* have existed since the early 1990s, the *Agrarians* and *Ozod Dekhqonlar* (Free Peasants) were established in 2003 in the run-up to December 2004 elections. Because they have been forced to operate underground, all opposition parties have been deprived the opportunity to play an autonomous role in politics and to participate in the December 2004 elections. Despite claims to represent the interests of the majority of the population (such as farmers, which the LDPU also claims to represent), these parties enjoy limited consent from the population because they remain largely unknown to them.

Most of the officially registered cooperative associations and interest groups are part of authoritarian corporatist structures. The few independent associations and groups are under security service surveillance and are strictly controlled by competing state institutions; their room to maneuver is therefore limited. They are allowed to work only on addressing government-approved societal interests. As a result, a large number of social interests remain unrepresented. The needs and demands of national minorities (e.g. Tajiks), religious groups that do not conform to the government (e.g. pious Muslims, Jehovah's Witnesses), and disadvantaged groups (e.g. HIV-infected, drug users, pensioners) are not being sufficiently addressed by NGOs.

Though no reliable data are available, sporadic evidence suggests that consent to democracy as form of government is increasing, despite the fact that the government tries to discredit democracy by equating it with instability. However, the population does not have a deep understanding of democracy. In general, social and political

protests tend to call into question authoritarian regimes that have been established independently from the constitutional system, rather than disputing the constitutional framework itself.

Self-organization within the population is practiced within the framework of officially controlled cultural barriers. Uzbeks tend to organize their life along traditional social safety networks (e.g. morning osh among men, gap-meetings among women, hashar support among family members and neighbors) which are used to redress and reconcile social needs that are not being addressed by the state or by NGOs. Membership in these safety networks is volatile and the duration of their existence limited. These networks are restricted to the Uzbek part of the population, and do not apply to other ethnicities represented in Uzbekistan.

## **2. Market economy**

Because the Uzbek leadership limits access to reliable, consistent and comparable data, even the data of international financial institutions should be regarded with care.

### **2.1. Level of socioeconomic development**

Worsening social and economic conditions have led to a drop in the country's level of development over the observed period. The subsistence economy is growing, and people are increasingly involved in the peasant economy and petty trade. As the social safety nets provided by extended Uzbek family networks are disintegrating, the number of those suffering social exclusion is growing. Among them are families with many children, single mothers, pensioners without families (mostly of European origin), and people in the countryside.

As a result of the economic decline, the role of women, which had been restricted to the private sphere until recently, is changing. Women are becoming increasingly economically active, primarily within the second labor market, which consists of most of Uzbekistan's petty traders.

### **2.2 Organization of the market and competition**

Market competition is quite limited. State intervention is substantial, and constraints on the private sector are excessive. High taxes, difficulties in dealing with state-controlled banks, and recently introduced and harshly enforced licensing and

certification requirements cause many small and medium businesses to operate in the informal sector or close altogether.

The formation of monopolies and oligopolies is regulated only occasionally. The government controls strategic sectors (e.g. cotton, gold, coal).

In accordance with its strategy to limit imports of consumer goods, the government largely controls foreign trade. During the summer and fall of 2002, excessive licensing and certification requirements for retail and wholesale traders were introduced, and customs tariffs were raised as high as 90%, making it very difficult for citizens to cross the border. In 2003, restrictions were imposed on the amount of local currency and hard currency that can be carried across Uzbek borders in either direction. In 2004, requirements that small traders be licensed and sell their goods directly, rather than through an intermediary, set off unprecedented protests by furious traders. These successive measures have cemented a restrictive trade regime and widened the country's dissociation from the world market.

The banking system and capital market are poorly differentiated. Despite some recent moves toward international standards of risk management and accounting, along with reforms in legal and supervisory frameworks, the banking sector remains undeveloped. Specific weaknesses include the predominance of state ownership within the sector, continued use of the banks as agents of the government for tax collection and financial reporting purposes, and – until recently – the practice of directed lending that has distorted credit allocation and placed a significant burden on banks' balance sheets.

### **2.3. Currency and price stability**

Controlling inflation is a formal aim within the economic system, but is subordinated to other goals both institutionally and politically. The government's foreign exchange policy is essentially used for political purposes. The government seeks to isolate the country from external influences in an effort to avert a "color" revolution in Uzbekistan.

During the observation period, the government undertook a major macroeconomic adjustment. A series of massive devaluations culminated in autumn 2003 in the formal introduction of current account convertibility, and a tightening of monetary policy since 2003 has reduced inflation to approximately 20%. However, the potential benefits of these steps were diminished by restrictions on access to foreign exchange for consumer imports and a tight cash squeeze in the economy.

The government pursues a policy of economic stability, but its lack of consistency in setting objectives leads to mixed results. Broad money (M2), which was sharply reduced in 2002, appears to have been relatively stable over 2003 and 2004. At the same time, money availability has been restricted. Commercial banks have experienced serious cash restrictions and difficulties in accessing their reserve accounts at the Central Bank. The adoption of the zero net external borrowing policy in 2001 helped reduce the broad public sector fiscal deficit and stabilize external debt and debt service levels. This was done at the expense of payment delays and reductions in spending for social services.

#### **2.4. Private property**

Property rights and the regulation of property acquisitions are defined formally by law. However, they are implemented inconsistently and safeguarded inadequately, especially against state intervention. Judicial procedures fall far short of international standards, and corruption is widespread. Expropriation is frequent. Property belonging to local businesses and individuals, particularly within the agriculture sector, is often expropriated with inadequate compensation.

In principle, private companies can act freely, but encounter *de facto* barriers to development imposed by the government. State companies or monopolies dominate strategic business sectors. In the agricultural sector, government ownership, control, and marketing restrictions all prevent full realization of the potential benefits of rural enterprise development. Government cotton procurement accounts for 50% of total production. However, farmers find it difficult to sell the remaining 50% on the free market because of inadequate private marketing channels and gross government interference.

#### **2.5. Welfare regime**

State social networks do not cover all risks for all strata of the population, and considerable portions of the population are still at risk of poverty. Although the government increased the salaries of employees at budgetary institutions several times during the observation period, pensions, social allowances, and scholarships remained at or below the poverty level. Payments were often delayed and arrears accumulated, so that the recipients were dependent on other sources of income to make their living – such as “fees” for state services, petty trade, and support by wealthier family and neighborhood members. Family and communal networks comprise current social safety nets, and broadly provide viable compensation for social risks.

Equality of job opportunity does not exist. Social background, network affiliations, and financial means determine employment and career opportunities. While a vast majority of women have access to basic education, and the majority have access to higher education, very few women are able to obtain leadership positions since Uzbek traditions restrict the public role of women. Increasing numbers of young people, who lack either the educational and financial background or the network affiliations to secure job opportunities, are leaving the country to make their living.

## **2.6. Economic performance**

Accurately estimating economic growth in Uzbekistan is difficult because of the unreliable nature of government statistics, which often serve political rather than economic ends. The government claims that GDP rose 4.4% in 2003, but experts believe it stagnated at 0.3%. Economic growth remains far below its potential due to several factors, including the country's poor investment climate, failure to attract foreign investment, an extremely restrictive trade regime implemented to strategically limit imports of consumer goods, failure to reform an agricultural sector which could serve as the engine of economic growth for this largely rural economy, and a system that does not functioning properly as a result of governmental market intervention.

Unemployment and underemployment are very high, but reliable figures are difficult to obtain, as no credible surveying has recently been done. The government officially claims that the unemployment rate is below 1%.

## **2.7. Sustainability**

During the Soviet era, Moscow used Uzbekistan for its tremendous cotton growing and natural resource potential. The extensive and inefficient irrigation of cotton fields led to the shrinkage of the Aral Sea to less than a third of its original volume, one of the world's worst environmental disasters. In post-Soviet times, ecological concerns continue to play a minor role in the government policy, and remain entirely subordinate to growth efforts. Cotton is the country's major export good. As a result, there is almost no institutional framework for environmentally compatible growth.

Institutions for education, training, research and development exist in significant segments, but have been established very inconsistently on the whole, leading to important deficits in research and development. Investment in education, training, research and development is quantitatively rather high, but qualitatively rather low. Colleges and universities fulfill a primarily pedagogical function and have not

traditionally supported research institutes. Public policy research institutes associated with government agencies tend to facilitate rather than analyze government policy. The educational system is state supported, but an increasing proportion of pupils and students have to pay “entrance fees” as well as “fees” for the maintenance of the school and for the courses they attend. Certificates have frequently been purchased.

### **3. Management**

There are no reliable, comparable ratings or analysis regarding the country’s political leadership for the observation period.

#### **3.1. Level of difficulty**

In general, structural difficulties that constrain the political leadership’s governance capacity are twofold: constraints that result from the dissolution of the Soviet single economic market (including severed business relations, communication and transport networks), and constraints that result from the government’s unique transition strategy. During the observation period, poverty increased and health and education standards decreased, leading to substantial emigration of a labor force that would otherwise have been willing and able to promote necessary political and economic reforms and ensure good governance. Although they worsened somewhat, structural difficulties remained moderate and only partially constrain the political leadership’s governance capacity.

There are moderate traditions of civil society structures and organizations, which were already functioning during Soviet times and have developed further since independence. However, because most are organized and controlled by the government, they do not fulfill the classical function of a robust civil society, defined as “the realm of autonomous voluntary organizations, acting in the public sphere as an intermediary between the state and private life.” Similarly, a traditional communal civil society is interwoven with the state-managed civil society, and is based on self-help, social trust, and community solidarity within the Mahalla (neighborhood); it is territorially bounded, focused in the local community, and based on face-to-face interaction. Within this space of public and collective activity, people come together to address self-determined goals and defend their interests in solidarity.

Society and the political elite are polarized according to communal, regional and corporate networks that are interwoven and transcend family loyalties. Social cleavages arise as a result of increasing social differentiation and the declining willingness amongst the wealthy to support the poor. As a result, social

dissatisfaction within the population is growing, which political extremists increasingly and successfully exploit to recruit new members. The violent incidents of 2004 were rooted in this growing social dissatisfaction.

### Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	2
		Latest parliamentary election:	26.12.04/ 09.01.05
Head of State:	<i>Islom Karimov</i>		
1. Head of Government:	<i>Utkir Sultonov</i>	Cabinet duration:	12/95-12/03
2. Head of Government:	<i>Shavkat Mirsiyoyev</i>	Cabinet duration:	12/03-present
		Number of ministries:	12
		Number of ministers:	19
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

### 3.2. Steering capability

Political leadership claims to pursue democracy and market economy in the long-run. However, the political leadership rarely pursues its self-proclaimed gradual transition strategy in its day-to-day activities, but instead prioritizes the short-term interests of political bargaining and rent-seeking. Decisions are in favor of personal relationships and to personal advantage, rather than on the basis of the adopted transition strategy.

As a result, qualitative structural changes in the political, economic and social system have been deferred. Transformation toward democracy and a market economy has been quite limited. Necessary reforms have not been undertaken or have been blocked regardless of their effects (e.g. trade and currency restrictions).

The political leadership insists on obviously mistaken and harmful policies to stay in power. The capacity among political actors to recognize failures in their previous policies is not highly developed, and learning processes rarely take place. Innovative policies have little chance of adoption because the interests of stakeholders who profit from the current policy dominate the political elite.

### 3.3. Resource efficiency

The government uses only some of its available human, financial and organizational resources efficiently. There are nearly five million government employees (out of a

population of 26.7 million), more than 100,000 of whom are employees of public administration agencies. These employee salaries are kept low to avoid burdening the state budget. To make a living, public officers often use their position to accumulate private wealth by requesting “fees” for services. To prevent excessive corruption and dominance by certain networks, the president regularly instigates a rotation of public servants in both central and local governments. In addition, top-down political pressure on the civil service continues to serve as a mechanism to assure accountability.

Family, communal, regional and corporate network connections play an important role in staff promotion. There are frequent reports that the most sought-after civil service posts are routinely purchased rather than appointed. Although criminal penalties exist for such practices, there are few examples of prosecutions. During the observation period, connections and financial means were gradually becoming less reliable guarantees for obtaining prestigious government posts. Entrepreneurial qualifications, skills and initiative were increasingly being valued over family, communal, regional and corporate affiliations.

In line with other reforms, Uzbekistan has taken a gradual approach to reforming public sector budgeting, accounting and reporting arrangements. These arrangements represent a continuation of pre-transition central planning systems and are based on a Soviet model of accounting that dictates prescriptive rules and requirements. The information provided meets the needs of central planning, but does not provide the necessary information to support transparent, accountable or efficient government operations.

The establishment of efficient local government bodies in Uzbekistan is still in progress. There has not been a systematic approach used to date, and shortcomings persist regarding clear differentiation of central and local government functions and clear coordination between central and local governments in addressing urgent social and economic issues at regional levels. Due to limited financial and material resources and excessive central government control, local administrations lack the ability to make independent decisions about their activities and to influence the social and economic situation at a local level.

The president attempts to balance conflicting networks, but not always successfully. Different parts of the government compete among each other as a result of internal rivalries among networks and conflicts over access to resources. Some conflicts have counterproductive effects on other policies.

Corruption is a fundamental characteristic of administrative and state culture, and the president and his government have undertaken only limited steps to fight against this

corruption. State spending policies are not thoroughly reviewed by either the parliament or independent institutions, and no transparent public procurement system exists. Only in very rare cases are officeholders held accountable for asset declarations, conflict of interest rules, and codes of ethical conduct. Corruption is only sporadically persecuted. Because citizens' access to information is limited, they are deprived of the ability to control the performance of civil servants.

### **3.4. Consensus-building**

In addition to politicians, political actors also include regional and corporate networks with political clout, whose power, importance, and financial resources are relevant to the course of the political process. The majority of these networks are interested primarily in benefiting from their relations with the government; only a small number focus beyond their own interests to introduce radical reforms and work toward building a market-based democracy. This small group of reform-minded people lacks both a political voice and control over the actors with veto powers who stall the reform process.

The political leadership's stance toward cleavage-based conflicts is twofold. On one hand, the political leadership deepens religious cleavages by persecuting religious communities that are not approved by the government. On the other hand, it attempts to prevent regional conflicts from escalating by balancing the different network interests. The latter has not been successful in reducing existing divisions in order to maintain control over these various networks.

The political leadership officially encourages social trust among groups and individuals by propagating adherence to Uzbek virtues, such as neighborly help and assistance to the poor and disadvantaged. However, the government's pervasive surveillance and control exacerbates distrust among the population, and its restrictive policy is used to reject and suppress civic engagement it suspects has gotten beyond its control. Because opportunities for civic-mindedness and citizen engagement are severely limited, networks dominate politics and society.

In order to please the western community, the political leadership involves civil society actors in political debate, but only those actors who reflect the government's own position. Independent civil society actors are excluded from identifying political goals and priorities and formulating policies.

The political leadership exploits the collective past for its own purposes. To demarcate the uniqueness of its "Uzbek path," it manipulates memories of the past and redefines the Soviet period as a time of historical injustice. By doing so, it causes

disgruntlement among those parts of the population that were better off during Soviet times, and undermines reconciliation between the victims and perpetrators of past injustices.

### **3.5. International cooperation**

Although the political leadership asserts its willingness to cooperate with individual bilateral and multilateral international donors, it considers external advice as unwanted political interference, and does not use international aid to improve its policies.

In May 2003, the EBRD expressed serious concerns about the state of genuine multi-party democracy, respect for the rule of law and human rights, and economic reforms in Uzbekistan. A year after it called for improvement of the political and economic situation in Uzbekistan, the EBRD concluded there had been very limited progress. As a result, the Bank decided not to conduct business as usual any longer, remaining engaged in Uzbekistan, but markedly reducing its activities. Other financial institutions such as the IMF have completely withdrawn from the country due to the lack of reforms and viable opportunities.

Despite its efforts to present itself as a credible partner, the government is not trusted by the international community. Consistent assurances that it seeks to make accommodations to international standards are repeatedly negated by state actions that threaten the well-being of its citizens.

The political leadership cooperates selectively with neighboring states. Conflicts over natural resources, energy supplies and border security issues prevail. By molding itself into the role of regional hegemon, Uzbekistan exacerbates discomfort among neighbors whose armies and economies are not as strong. Because the state believes its statehood is threatened by groups (whether religious or not) outside of its control, its political leadership is reluctant to cooperate with international organizations that might strengthen these groups. International organizations such as OSCE, which insist on the implementation of democratic standards and market economy, are given little scope for operation in the country. The Open Society Foundation was denied re-registration once the Uzbek government decided it had supported the “velvet revolution” in Georgia.

## **4. Trend of development**

### **4.1. Democratic development**

During the observation period, stateness, political participation and the rule of law have deteriorated significantly. December 2004 elections for the new bicameral parliament fell significantly short of OSCE commitments and other international standards for democratic elections. Several political parties have been formed with government approval, but have yet to show an interest in advocating alternatives to government policy. Opposition parties were allowed to organize, recruit members, and hold conventions and press conferences, but were denied registration under restrictive registration procedures.

Rule of law has been worsening. Uzbekistan has no independent judiciary and torture is widespread in its pre-trial and post-conviction facilities. In response to international pressure, the government introduced incremental reform that has yet to be implemented. There has been no fundamental improvement made here. Several prominent opponents of the government have fled, and others have been arrested. The government continues to repress those it suspects of Islamic extremism (e.g. members of Hizb ut-Tahrir).

In 2004, approximately one hundred people were tried on terrorism, murder, and other charges relating to the March-April 2004 violence and the July 2004 bomb attacks. These trials failed to meet international fair trial standards. Many defendants alleged that police had held them incommunicado and used torture, threats, and other pressure to coerce confessions during the investigation.

By the end of observation period, approximately 5,300 to 5,800 suspected extremists were incarcerated. Over the past years, a number of “extremists” are believed to have died in prison from disease and abuse.

### **4.2. Market economy development**

Following a decline in the country’s level of development over the past five years, indicated by an HDI change of -0.025, the government has begun the process of formulating a new strategy for improving living standards. The strategy foresees more broad-based links between poverty reduction goals, economic growth, and sector-specific interventions. This is the first time that steps have been made toward a comprehensive strategy aimed at poverty reduction and, more importantly, that poverty reduction has been addressed within larger growth initiatives and not merely through social assistance. However, this strategy has yet to be implemented.

The institutional framework has deteriorated severely, affecting the entire economic regime. Institutional reforms have been partial and are often executed in principle only (i.e. issuing government decrees and approving legislation). They remain inadequate in promoting the transition to a dynamic market economy. There are many shortcomings in the current legislative framework – sufficient law enforcement is absent, property rights are unclearly defined, political interference in the enterprise sector is excessive, and reforms in the banking and finance sector are insufficient. Overall, the current institutional configuration of the Uzbek economy is not conducive to promoting commercial operations by privatized and newly established private enterprises.

Overall economic development has deteriorated severely, both quantitatively and qualitatively. The government accepted obligations under Article VIII of the International Monetary Fund Articles of Agreement in October 2003, establishing full current account convertibility. However, continuing limitations on currency convertibility, severe import restrictions and partial closure of Uzbekistan's borders with Kazakhstan and Kyrgyzstan have constrained economic growth. Substantial structural reforms are needed to halt this trend, particularly in terms of improving the investment climate for foreign investors and freeing the agricultural sector from smothering state control.

**Table: Development of macroeconomic fundamentals (2000-2004)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Growth of GDP in %	3.8	4.2	4.2	4.4	-
Export growth in %	0.9	-2.9	-5.7	24.6	-
Import growth in %	-5.2	6.4	-13.5	9.3	-
Inflation in % (CPI)	24.9	27.4	27.6	10.3	12.0
Investment (FDI) in % of GDP	5.1	10.9	13.8	-	-
Tax Revenue in % of GDP	-	-	-	-	-
Official Unemployment rate in %	0.4	0.4	0.4	0.4	-
Budget deficit in % of GDP	-1.3	-1.5	-1.5	-0.6	-2.2
Current account balance in billion \$	-185	34	239	681	807

Source: AsDB: Key Indicators 2004. DEG/gtz/FAZ-Institut: Zentralasien-Brief 2004.

#### **D. Strategic perspective**

While many scenarios are conceivable for Uzbekistan, a more politically and economically open society is unlikely in the short term. There is serious danger of greater isolationism, a stagnating economy and a closed political system.

The current political system is potentially fragile, but can probably continue to function at the present level, at least for the medium term. The creative ability of Uzbeks to adapt to economic hardship, the ubiquitous police force and other repressive instruments will keep social and political discontent in check. Intellectuals and potential political leaders will continue to leave the country as a result of the political stagnation, and public opposition is likely to remain weak and fragmented due internal fragmentation, lack of financial and personnel support, and government suppression.

If political and economic reforms remain nonexistent or limited over the long term, discontent will increase, especially among the young people who comprise more than 60% of the population. This group has thus far chosen other outlets for their discontent, including emigration, radicalization and joining religious groups, or involvement in criminal activities such as prostitution, drug and human trafficking.

A more open political and economic system would contribute to the long-term stabilization of the country, but would require substantive reforms. Reforms needed in the political field include registration of opposition parties, abolishment of state control over the media, loosening restrictions for civil society development, implementation of the recommendations of the UN Special Rapporteur on Torture, and introduction of legal reforms toward greater independence of the judicial system and greater transparency in civil service.

The economic field requires implementation of agricultural reforms, changes to the trade regime, follow-through with currency convertibility, and creation of an environment conducive to business development. If resource allocation in agriculture and industry followed market signals and trade were freed from restrictions, the Uzbek economy has the potential to attain long-term growth rates of 7-8%. Agriculture could be the primary driver of any initial expansion, with the development of small industries playing a complementary role once direct controls over economic decision-making were replaced by indirect macroeconomic management. If trade is liberalized, it has the potential to increase service sector growth by 5-6 percentage points over its presently depressed level. Legal reforms, including the protection of property rights and improvements in the enforcement of contracts, would be essential to foster and sustain the necessary strengthening of domestic and foreign investment activity. Key elements in banking reform would be the abolition of the extra-financial roles of banks (such as tax enforcement and cash

planning) and interest rate controls, bank freedom to manage liquidity and lend subject only to the usual prudential regulations, and sustained progress in bank privatization.

If the government continues the “Uzbek path” of political and economic reform, it risks spurring social unrest. A first indication of this unrest may be the increasing number of small-scale protests which have taken place despite state repression, with factory workers staging strikes over unpaid wages, pensioners going to the streets demanding their payments, and women protesting energy cuts. On November 1, 2004, the biggest protests since independence took place in Uzbekistan. An angry crowd of between 5,000 and 10,000 people took to the streets in Kokand after tax officers started confiscating goods from traders at the market. Rioters threw stones at police reinforcements sent to disperse them, and set fire to two police cars.

Outsiders’ ability to encourage reform is limited if the domestic political will to implement it is absent. When the government fails to live up to its commitments, however, the international community needs to consider further steps to encourage reforms, starting with increased support within the country for reform-minded people and ending with financial sanctions.