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This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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**Executive Summary**

Contrary to expectations among Uzbekistan’s civil society actors, the U.S.-Uzbek partnership forged in the wake of 9/11 has strengthened, not weakened, President Karimov’s anti-democratic regime. Distracted by the war on terror, the international community has failed to emphasize democratization in Uzbekistan, giving the regime carte blanche to do as it pleases. This culminated in the brutal suppression of the Andijan uprising in May 2005, with numerous civilian victims. This event has had a serious impact on subsequent political and economic developments in Uzbekistan.

Having faced severe criticism from the international community, including EU sanctions imposed in 2005, the government made some dramatic changes to its foreign policy. In November 2005 and with the active supported of Russia and China, Uzbekistan closed the U.S. military base on its territory that had been used for “Operation Enduring Freedom – Afghanistan.” Since late 2005, the government has attempted to deflect the country’s cotton trade from Europe toward developing Asian economies. Despite the obvious financial disadvantage for the Uzbek economy, China and South Asian countries have become the main buyers of Uzbekistan’s cotton harvest for the 2006 – 2008 period. In an attempt to provoke discord within the European Union, Uzbekistan made an exception for German cotton traders. The German military base in southern Uzbekistan also provides the government with notable leverage in pressuring Germany to throw its weight in lifting EU sanctions. The banishment of U.S. and British companies from the local market or their partial dispossession in favor of companies owned by the president’s family was heralded in the shift in foreign policy. The government subsequently intensified its persecution of dissidents and closed the offices of foreign media agencies. Approximately 200 NGOs were requested to close down “voluntarily” or face legal action. Rampant corruption, authorities who act arbitrarily toward small- and medium-sized businesses, as well as economic autarchy have significantly slowed the country’s economic transformation.
History and Characteristics of Transformation

Uzbekistan became an independent state in the wake of the disintegration of the USSR in 1991. Islam Karimov, already in power as the Uzbek Communist Party first secretary since 1989, declared after his election as president in 1991 his commitment to establish a modern secular democratic state based on the rule of law with a free market economy. But the country’s strong Soviet legacy affected the nature of the new nation-state. The political leadership accepted democratic institutions only to make meaningless mimicries of them. Although the names changed, the institutions of government remained similar to those that preceded them.

Already in January 1992, the political leadership revealed its autocratic nature in its brutal response to student protests in Tashkent demanding more democracy and radical economic reforms to improve their miserable socioeconomic situation. Since then, Uzbekistan’s leadership has become increasingly autocratic. The government has justified its interdiction of public assembly, opposition parties and the media by emphasizing the need for stability and a gradual approach to change during the transitional period, citing the conflict and chaos in Tajikistan and Afghanistan. This approach gained credence amongst a large share of the population and some European allies of Uzbekistan. The government exploited ungrounded fears of “Islamic fundamentalism” to legitimize itself and justify a clampdown on basic human rights. Only government-approved political parties and NGOs were allowed to work in Uzbek territory. Institutions that did not conform to the government faced several difficulties. All elections held to date have been neither free nor fair.

Since independence, the government has consistently reaffirmed its commitment to a gradual transition to a free market economy, but has proceeded with extreme caution. 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. The government has postponed indefinitely fundamental reforms in agriculture, state enterprises, state procurement, and the financial sector, including foreign exchange, which has led to an increasingly precarious economic situation.

Following the 9/11 terrorist attacks in New York and Washington, the government allowed the United States and Germany to station their troops in Uzbekistan in hopes of gaining international recognition and financial support. International pressure on Uzbekistan to commence political and economic reforms was insufficient and inconsistent, allowing the government to placate the international community with minor concessions. In 2002, the regime permitted a leading human rights group to register, 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, which led to the establishment of full current account convertibility. This positive trend was halted in late 2003 after the Rose Revolution in Georgia. The government tightened control over institutions that might have been able to contribute to a velvet revolution in Uzbekistan as well. International organizations were required to re-register, which led to the 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.

After the bloody suppression of the Andijan uprising in May 2005, the government refused an international investigation. Following this refusal, the United States and the European Union introduced a number of sanctions against the government. Facing the threat of international blockade, Karimov sought a rapprochement with Russia, having concluded formal and informal agreements on a political and military alliance with it. Uzbekistan has recently begun talk of liberalization. The government has trumpeted new initiatives and laws – such as legislation concerning the media and NGOs, and a proposal on strengthening political parties – as democratization. But it is clear that these laws ultimately change nothing and have far less to do with democratization than with strengthening the regime.
Transformation Status

I. Democracy

During the period under review, the rapprochement with Russia and China has enabled the government to suppress almost all opposition forces that were tolerated during Uzbekistan’s cooperation with the United States. The country’s political system still remains a “façade democracy.” Registered political parties do not play any significant role in the country’s politics; the regime uses them as puppets.

1 | Stateness

The state’s monopoly on the use of force is established nationwide in principle, even to the extent that police and other security services pose a high physical threat to citizens. Police and security forces have become the praetorian guards of the regime. The state’s monopoly on the use of force could be undermined during conflicts between power groups around resources. The leaders of power groups do not let conflicts grow into violent collisions, but there is potential already in place with the different kinds of unofficial militias and private guards disguised as sports schools, martial arts clubs, karate sections, etc.

All permanent residents of Uzbekistan have the right of Uzbekistani citizenship without ethnic or religious discrimination and share the same rights. The prevailing majority fundamentally acknowledges the state’s constitution. Only two marginal movements (Hizb-ut-Tahrir al-islami and the Islamic Movement of Uzbekistan or Turkestan) question the legitimacy of the nation-state and aspire to create an Islamic state. The concept of “ethnic nationalism” adopted by the government has bred controversies among the ethnic minorities of Uzbekistan. It claims Uzbekistan as an Uzbek ethnic state, limited to the present territory of the country and strictly excludes Uzbek diasporas in neighboring states. The Persian-speaking population (ethnic Tajiks and Iranians in and around Samarkand and Bukhara) as well as ethnic Russians and other Russian-speaking minorities consider themselves discriminated against by the Uzbek authorities in matters of education and employment.

According to the constitution, Uzbekistan is a secular state in which religion is clearly separated from the state. The constitution prohibits the establishment of political parties on religious and/or ethnic basis. Regardless of the authorities’
rhetoric employing Islamic symbols, religious dogmas have no noteworthy influence on politics or the law. All religious activities beyond state-run institutions are persecuted. Some advantages have been informally given to “official” Islam and the Russian Orthodox Church.

The state’s basic infrastructure extends throughout the territory of the country, but its operation is highly deficient. All spheres of public services suffer from rampant corruption, civil servants’ poor education level and inadequate technical facilities.

2 | Political Participation

General elections are held and accepted in principle as the means of filling leadership positions. The constitution provides for free, fair and periodic elections, by universal and equal suffrage that are conducted by secret ballot. Political reality differs dramatically from the constitutional reality. Elections at all levels of authority – from mahalla (neighborhood) committee chairs to parliament – are neither free nor fair. The competitive nature of elections is completely staged: both “winners” and their “challengers” must go through the process of careful pre-selection and approval by the authorities. President Islam Karimov’s third term of office formally expired on January 22, 2007. The presidential election law adopted in 2002, in clear contradiction with the constitution, allows Karimov to remain in office for the next 11 months at least. It states that “elections of the President of the Republic of Uzbekistan, legislative house of the Oliy Majlis, Jokargy Kenes of the Republic of Karakalpakstan, representative bodies of state power of regions, districts, and cities are organized in the year when their terms of office expire – on the first Sunday of the third decade of December.” The next presidential elections are to be scheduled according to the constitution immediately after the expiration of the presidential term of office, that is in January 2007.

All elected rulers have the power to govern in principle, but informal networks in and around the state apparatus can set their own domains apart or enforce special-interest policies contrary to the state. Informal networks are focused on exploiting the organizational deficits of the state for their own benefits. The president and regional strategic groups concluded an informal pact on the distribution of power and resources. The president personally ordains the 130 most important positions in the central and regional governments. Through these appointments, the president can shift and redistribute economic and political power among informal groups.

Opposition parties (Birlik, Erk, Ozod Dehqonlar and others) are either systematically denied registration or prohibited. Freedom of assembly is not
ensured by the state. NGOs and other civic organizations can act if they support the regime or do not openly criticize it. Though still allowed, establishing new NGOs is extremely complicated and subject to excessive prolongation.

According to official statistics, there are 93 non-government media, 34 cable TV providers and 4 news agencies presently operating in the country; there are 597 newspapers and 145 magazines published. But in spite of these impressive indicators and the official cancellation of censorship in May 2002, citizens, organizations and media cannot express views and opinions freely. Uzbekistan is one of the 15 countries that has declared itself an “enemy of the Internet,” and blocks sites criticizing the regime. There are lists of forbidden topics, words and visual materials for all forms of media, the obvious targets being private initiative and freedom of thought. During the period under review, the government closed several international NGOs and Western media agencies; several independent journalists and NGO activists were persecuted.

### 3 | Rule of Law

The government has often made declarations of its commitment to building a state based on the rule of law, and has, since 1992, made the necessary legislative changes to to establish the fundamentals. However, in practice, the construction of a state based on the rule of law has been not promoted. The rule of law is minimal and the constitution fails to protect rights and freedoms. The constitution provides for separation of powers between a strong presidency and a supreme assembly (Oliy Majlis) with the power to approve the budget. In practice, there are no checks and balances, and no identifiable separation of powers. The president and his administration dominate the executive, legislative and judicial branches of government. Sharp imbalances in the distribution of power and resources to the advantage of the central government characterize its relations with its sub-national agencies (Hokimiyyats). The executive does not exercise its powers lawfully, especially at the sub-national level.

The constitution provides for an independent judiciary, but in actuality, judges do not act independently from the executive branch. The judiciary is widely corrupt and inefficient. An informal political hierarchy of legal and law enforcement institutions secure the judiciary’s dependence on the executive. As a rule, the courts do not dare to oppose the rulings of the prosecutor office, which ranks above them in terms of political power, funding and influence. Moreover, according to the so-called “telephone law,” court rulings can be instructed by powerful officials in the presidential administration and security services.

Fighting corruption is a chronic problem, but still not on the government’s agenda. Legal and political penalties for officeholders who abuse their positions...
are limited primarily to the removal from state administration of those at fault. Prosecution is rare and legal penalties are served against only those who acquire threatening political and economic clout.

The constitution and laws provide for all civil rights according to international human rights standards. In practice however, civil rights are severely restricted. Torture and abuse remain systematic. During the government’s fight against terrorism and radical Islam, police and National Security Service forces arrested and tortured thousands of nonviolent Muslims. As for women’s civil rights, violence in general against women and girls constitutes a crime punishable under criminal law. However, there is no specific law against domestic violence and marital rape is not subject to criminal law. While criminal law provides for immediate means of redress and protection, traditional stereotypes regarding male and female roles in society shape the wide discrepancy between legal norms and their implementation.

4 | Stability of Democratic Institutions

Uzbekistan is an authoritarian state with an anti-democratic establishment; its “democratic” institutions are merely a façade. The presidential administration is the core institution exercising dominance and control as it stands above the entire political system and operates along its own informal rules. State advisors appointed by the president “shadow” other central political institutions, societal life and the national economy. They are authorized to give orders to all branches of the government. But the presidential administration is mindful that the operation of state advisors is not regulated by the constitution, nor mentioned in other laws. The authority of state advisors is limited both by the president and the informal distribution of power between him and informal networks. The majority of strategic decisions issue directly from this “inner circle.” The executive, legislative and judicial powers merely respond to them.

“Democratic” institutions are part of the authoritarian regime. According to the most recent official data, almost 75% of the population “sympathizes” with the president. In responding to the question of a real candidate for the next presidency, about 49% of respondents mentioned President Karimov, and another 23% named a person from Karimov’s milieu. Uzbekistani society fears the unknown and further instability, and the sense of traditional loyalty toward the authorities remains strong. Memories of the civil war in Tajikistan and its catastrophic consequences persist, and the authorities intentionally fuel these fears. Criticism targeting the country’s leadership is often perceived by the population as a sign that the situation is getting more dangerous; if the criticism originates from the West, many perceive it as an “attack against our own people.”
5 | Political and Social Integration

The presence of a so-called multiparty system caters to the desires of Western observers. It is not a reality; all five parties represented in the parliament are “agents” of the presidential administration. Member recruitment was conducted among civil servants often under pressure from authorities. The parties and their programs are barely known to society. The similarity of these parties’ programs is quite conspicuous. It comes as no surprise that these non-entities enjoy neither popularity nor any significant social base. The opposition is highly fragmented. Government harassment and intimidation has weakened their organization, as has their own internal problems. Reciprocal suspicions and accusations of collaborating with the government make the prospects of a united opposition and its effective participation in political life unrealistic.

Interest groups are present only in isolated social segments; they cooperate little, and are on the whole poorly balanced. A large number of the majority’s social interests remain unrepresented, informal networks within the political system represent the interests of power groups. Clientelism is the main mechanism of this “network”-based political machine. All significant domestic actors are clients and supporters of the president. The president created patron-client networks designed as “we-groups” largely to ensure his control of the competition over resources. Although they derived their names from toponyms like Samarqand, Bukhara, Tashkent, Ferghana etc., these groups have lost any affiliation to their respective regions. Power groups are formed around state resources made available to them through the presidential strategy of consolidating power.

Apathy, fear, foreboding and lack of trust in any political institution dominate public consciousness and have crushed people’s willingness to get actively involved in political life. The population is far from associating the resolution of their daily hardships with the dilemma of “authoritarianism or democracy,” or the dilemma of “should we be with Russia or with the West”. It is highly unlikely that the population would associate the resolution of their daily hardships with questions as to whether they prefer authoritarianism to democracy or Russia to the West.

Some observers have believed that Uzbekistan’s growing informal sector and dramatic poverty rates would instigate a sustainable trend toward increased self-organization in Uzbekistani society. Instead, however, we have seen a dichotomous process develop in which one type of social capital is destroyed and replaced with another. There has been a dramatic increase in the number of reciprocity rites and the importance of informal networks. Capacity to self-organize is distributed unevenly in society and depends on ethnic background, lifestyle (rural/urban), level of education and professional qualification. Urban
Uzbeks, Tajiks and Koreans with an education level above the secondary level have the highest degree of self-organization, while Russians and other representatives of European ethnic minorities, as well as rural Uzbeks and Tajiks, whose education achievement is low, show the lowest degree of self-organization.

II. Market Economy

Transition from the Soviet planned economy to a social market economy remains incomplete. In defiance of large-scale small- and medium-sized enterprise privatization, the government continues to exercise firm control over all significant economic activities in the country. Privatization in the agriculture sector is just beginning. Structural reforms are still at an early stage. The restructuring and privatizing of large-scale enterprises is proceeding slowly. The government’s reluctance to yield controlling shares of strategic enterprises and the difficult business environment have curtailed outside interest.

6 | Level of Socioeconomic Development

During the period under review, disparities in socioeconomic development increased significantly. The Gini coefficient for Uzbekistan has decreased since the mid-1990s and was at 26.8 in 2000. Disparities are primarily regional, that is, urban-rural, as well as gender-based. Some studies suggest that around 70% of the poor population live in rural areas, where subsistence economies prevail. Uzbekistan’s GDI value of 0.694 should be compared to its HDI value of 0.696; its GDI value is 99.7% of its HDI value, placing Uzbekistan 33rd out of 136 countries with both HDI and GDI ratings. However, the weak methodology of the studies from which Gini, GDI and other such coefficients are derived, which rely primarily on data from governmental sources, casts doubt over their accuracy in representing real poverty and inequality levels. Developing the capital city economically comes at the expense of the rest of the country, particularly Karakalpakstan. Karakalpakstan is Uzbekistan’s poorest region and its population suffers much from the consequences of the shrinking Aral sea. Gender- and education-based discrimination also aggravate the highly inequitable distribution of public wealth. The quality of and access to higher education has significantly regressed, which only spurs development disparities.
## Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td><strong>GDP</strong></td>
<td>$ mn.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Growth of GDP</td>
<td>%</td>
<td>4.0</td>
<td>4.2</td>
<td>7.7</td>
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<tr>
<td>Inflation (CPI)</td>
<td>%</td>
<td>44.3</td>
<td>14.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Unemployment</td>
<td>%</td>
<td>0.4</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Foreign direct investment % of GDP</td>
<td>0.7</td>
<td>0.7</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Export growth</td>
<td>%</td>
<td>-10.4</td>
<td>8.3</td>
<td>21.8</td>
</tr>
<tr>
<td>Import growth</td>
<td>%</td>
<td>-8.7</td>
<td>1.8</td>
<td>19.3</td>
</tr>
<tr>
<td>Current account balance $ mn.</td>
<td>128</td>
<td>880</td>
<td>1,214</td>
<td>1,950</td>
</tr>
<tr>
<td>Public debt</td>
<td>$ mn.</td>
<td>4,005.5</td>
<td>4,149.0</td>
<td>4,117.4</td>
</tr>
<tr>
<td>External debt</td>
<td>$ mn.</td>
<td>4,798.3</td>
<td>4,920.6</td>
<td>4,833.0</td>
</tr>
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<td>External debt service  % of GNI</td>
<td>8</td>
<td>8.1</td>
<td>7.3</td>
<td>5.7</td>
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<td>Cash surplus or deficit % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Tax Revenue             % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption % of GDP</td>
<td>18.0</td>
<td>17.8</td>
<td>16.2</td>
<td>16.4</td>
</tr>
<tr>
<td>Public expnd. on edu.  % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public expnd. on health % of GDP</td>
<td>2.5</td>
<td>2.7</td>
<td>2.4</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure        % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure   % of GDP</td>
<td>-</td>
<td>0.5</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>


7 | Organization of the Market and Competition

The legal framework necessary for a successfully functioning market economy is in place. In practice, the liberalization and de-regulation of the economy are in the first stages. The government continues to control pricing in most of sectors, including agricultural markets, subsidizes a number of large enterprises and restricts foreign investment inflow. Private sector activity remains subdued or hidden within the large informal sector. In the agriculture sector, the government strictly regulates the operation of private farms. Competitiveness of enterprises is
significantly limited due to rampant corruption, the absence of legal protection for entrepreneurs, and frequent instances of illegal requisitioning of financial resources from bank accounts of private and public enterprises by sub-national authorities.

The formation of monopolies and oligopolies is regulated only occasionally. The basics of anti-monopoly legislation were set in 1992. In the same year the “State Committee for De-monopolization and Competition Development” was created, and in 2000 the government endorsed its independent status, supporting it with a number of anti-monopoly laws. However, the committee is not entitled to implement structural changes for the destruction of artificial sector monopolies created by the government, nor does it have the right to conduct investigations and identify anti-competitive practices among enterprises.

During the period under review, legal regulations and the government’s informal activities significantly restricted foreign trade liberalization. The government continues to interfere blatantly with free trade and enterprise, and it exercises strict control over payments, transactions and the transfer of funds, as well as repatriation of profit. Trade policy remains restrictive. Effective rates of protection against consumer imports are high. The government imposes a heavy regulatory burden on individual entrepreneurs. Tax rates on a wide range of consumer imports are higher than on domestic goods. Other regulatory “behind-the-border” barriers to trade include the regulation of wholesale and retail trade affecting the domestic marketing of imports.

There is neither a solid banking system nor a capital market. The banks and other financial institutions perform functions that are inappropriate for financial intermediaries, such as tax collection and business oversight. The system of longer-term loans to small- and medium-sized enterprises is not stimulating economic activities. Requirements dictating that all transactions with enterprises be settled in a non-cash form and that all businesses deposit their earnings daily in a bank account have kept public confidence in the banking system low.

8 | Currency and Price Stability

Controlling inflation is a component of the economic system in principle, but it is institutionally and politically subordinated to other goals. The government is trying to control inflation and prices by artificially compressing the money supply through both regulatory and informal measures. The central bank is not independent. Foreign exchange policy is essentially used for political purposes. At the end of 2003, local currency conversion was introduced. The harmonization of local currency exchange rates was performed primarily through monetary measures. The official inflation rate is 3.5%, although if one factors in the anti-inflation / forex policy

Anti-monopoly policy

Liberalization of foreign trade

Banking system

8 | Currency and Price Stability
escalation of prices for electricity, gas and food products, as well as higher costs of production and increased wages, the real rate of inflation is at least 20%, as estimated by international financial institutions.

There is a “culture” of stability policy, but it lacks institutional safeguards for the future and is thus prone to populist policy changes. The government’s fiscal and debt policies are aimed at maintaining macroeconomic stability. This has resulted in the increase in foreign exchange reserves, stabilization of local currency exchange rate, some reduction of the inflation rate and a reduction of new debt level.

9 | Private Property

Property rights and the regulation of property acquisition are defined formally in law, but in practice, private property is completely unprotected. Matters of acquisition, use and revenue generation from private property and its sales depend entirely on the arbitrary decisions of government officials. Representatives of government bodies quite frequently “expropriate” private property with impunity.

In principle, private companies can act freely, but encounter huge economic, political or social barriers to development, since state companies and monopolies dominate the strategic business sectors. Setting up a private company takes an average of 29 days, compared to the world average of 48 days. Both obtaining a business license and closing a business are difficult. Regulations are sometimes inconsistent and unevenly applied, lacking transparency. The privatization of state-owned companies is progressing very slowly, and in all cases the government retains its share, which is either a majority holding (no less than 51%) or blocking right (49%). Recently the government repeatedly indicated its willingness to reduce its share or to completely withdraw from state-owned companies.

10 | Welfare Regime

Social networks are developed only partially and do not cover all risks for all strata of the population. Considerable portions of the population are still at risk of poverty. President Karimov officially proclaimed 2007 as the year of social protection. The 2007 budget provides for an increase in social sector expenditure from 51% in 2006 to 54.1% in 2007. But the system of social protection fails to provide even for basic needs. State salaries and pensions are below actual subsistence levels and not always paid in full. Local authorities frequently compel pensioners to spend part of their pensions on lottery tickets and subscriptions to government newspapers. The system of voluntary insurance against illness,
unemployment and disability is in its nascent phase. There is no mandatory public insurance and security against unemployment. All population groups, except people with disabilities and orphans, must pay for health services. Only state-owned enterprises pay child-care allowance.

About one-third of the country’s population lives below the poverty line. In 2005, the government endorsed the Welfare Improvement Strategy Paper for 2005 – 2010, which has not yet been institutionalized. No education or assistance mechanisms ensure equal opportunities of employment in state institutions or guarantee equal access to public services. The absence of financial and social capital (i.e., social networks) is the main barrier for marginalized groups such as women, people with disabilities, and socially vulnerable groups as well as some ethnic minorities to access public services. The government is not willing to introduce appropriate measures and mechanisms that would guarantee the social promotion of these unprivileged groups.

11 | Economic Performance

According to the government, economic activity grew significantly during 2005 and 2006; GDP grew by 7.0% and 7.3% respectively. Industrial performance has improved during the period under review, with significant contributions from machinery, chemicals and metals, due primarily to larger export sales. But macroeconomic policy lacks consistency. Fiscal policy remained tight, with a better than budgeted outcome, and the external borrowing policy remained prudent. Cash shortages were a problem during the period under review, especially for the private sector. Regulations imposed restrictions on cash in circulation to contain inflation and curb the activities of the shadow economy. However, these restrictions have limited commercial banks’ access to their correspondent accounts at the central bank. Increases in international gold prices, combined with volume increases in nontraditional exports, helped boost export earnings.

12 | Sustainability

Making growth environmentally compatible receives only sporadic consideration. In the 2006 Environmental Performance Index, Uzbekistan ranks 105th out of 133 countries. Air and water pollution, soil erosion, desertification and the shrinking Aral Sea are the country’s main problems. The government has tried to strengthen the institutional framework aimed at protecting the environment. In 2007, the nature reserve area will reach 5.5% of the total area of the country. However, given the difficult financial situation, many people engage in plundering and poaching, which is destructive to plant and animal life.
Environmental awareness is basically nonexistent in Uzbekistani society. Economic activity causes damage even to parks in major cities, where there are cases of unauthorized tree-felling. Punishments for the violation of environmental legislation are seldom enforced. Civil society is not eager to raise the issue of environmental protection.

Institutions for education, training, and research and development (62 higher educational institutions, including 19 universities, 2 academies and 48 research institutes, as well as 882 professional colleges and more than 10,500 secondary schools) are significant in number, but remain highly inconsistent, with key deficits in research and development. All are state-run, although the law provides for establishing private education institutions. The government invests heavily in the education system: the rates are above the OECD average of 5.1% (2007: approx. 11% of GDP). But comparatively high tuitions, the abolishment of distance learning and evening classes as well as rampant corruption sharply reduce access to higher education and heavily increase social disparities. Progress is inhibited by inadequate technical and information resources, underpaid teachers, lack of highly qualified staff, shortage of qualitatively good textbooks, insufficient equipment, gas and electricity supply of the buildings as well as the lack of close collaboration between education, science and industry.
Transformation Management

I. Level of Difficulty

The structural constraints on governance in Uzbekistan are high. Key structural problems include an extremely disadvantageous geographical location (Uzbekistan is a twice landlocked country and, along with Liechtenstein, is one of only two such countries in the world), high agricultural dependence on water resources originating up to 90% from abroad (mainly from Tajikistan and Kyrgyzstan), and the shrinking Aral Sea in combination with an environmental disaster in Karakalpakstan. The government’s ruinous and exploitive social and economic policies have brought about other structural constraints – poverty, skilled workforce drain, severe infrastructural deficiencies and high rates of drug-resistant forms of tuberculosis, to name a few.

There are moderate traditions of civil society. Its basic elements emerged in the late 1980s and early 1990s, but did not develop for political reasons, and are still weak. Since 2003 civil society has been subjected to considerable pressure from the authorities, who regard NGOs as “subversive organizations” and an instrument used by the West to encourage “color” revolutions. With limited and unprofessional personnel, NGOs failed to root themselves firmly in society during the more or less “favorable” period from the mid-1990s until early 2002. In many instances, NGOs worked for themselves: they served the interests of a rather small and unchanging group of individuals, thus raising distrust in the society. A traditional institution such as the “mahalla” with its family/kin, neighbor and other informal connections could have become a basis for civil society, but was instead integrated into the state apparatus. Another potential origin of civil society, the intelligentsia, leads a marginal existence as a consequence of the dire economic situation and the compulsion to conformism.

Society and the political elite are polarized along local, regional and social differences. Religious conflict is extremely improbable, due both to the country’s atheistic past and high degree of confessional homogeneity. The government’s repression of activists from the Islamic Movement of Uzbekistan and Hizb-ut-Tahrir al-islami cause deep grievances and may lead to violent social conflicts, but not religious ones: the main bone of contention between the
government and religious opposition groups is not Islam nor its theological interpretations, but rather the country’s acute social, economic and political problems. The government suppressed but did not resolve ethnic conflicts that flared up in the late 1980s and early 1990s between different ethnic groups in the Ferghana Valley. The risk of ethnic conflict is particularly high in that densely populated region; to reduce it would require intensive cooperation between Uzbekistan, Kyrgyzstan and Tajikistan. As the Andijan uprising indicated, the risk of social conflict becomes particularly high as a result of the dramatic increase in poverty levels and resulting income gap.

II. Management Performance

Uzbekistan is one of the few CIS countries in which there has been no change in the ruling elites over the last 15 years. In the early and mid-1990s, this made maintaining stability, avoiding ethnic and other conflicts as well as preventing dramatic slumps in production possible. However, it is the elites themselves that have become the main obstacle to the country’s transformation. They have become a closed caste isolated from the rest of society. The state apparatus now dominates society and views it merely as the forum for its activities.

14 | Steering Capability

The political leadership claims to pursue such long-term aims as democracy and a social market economy, but replaces these regularly with short-term interests of political bargaining and office-seeking. When the leadership does pursue long-term goals, the goals do not correspond to those of establishing democracy and a market economy. In 1992 the political leadership proposed a slogan “Uzbekistan is a country of the great future.” Over the subsequent 15 years, the political leadership failed to move from the slogan to the formulation of long-term strategic goals and priorities for the country’s development. The duration of various development programs accompanied with loud propaganda campaigns provides a good indication of this tendency. Such programs as the “Year of Charity and Medical Workers” (2006), “Year of Health” (2005), “Year of Kindness and Mercy” (2004), etc. generated no sustainable effects and were dropped from public discourse one year after their introduction.

Uzbekistan is an over-centralized state. Within this framework however, government activity aimed at reform implementation could have been quite effective. The government has the capacity to concentrate huge administrative, financial and human resources for pursuing strategic objectives. It is unlikely
that the government would encounter any significant opposition from society, which, as a legacy of the Soviet period, has grown accustomed to political and economic reform initiatives coming exclusively from the political leadership. In spite of this capacity, the government has failed to demonstrate persistence in reform implementation and does not follow up on reforms. Members of the government are more preoccupied with personal enrichment and surrounding themselves with loyal supporters than with the situation in their country or continuity in the reform policy.

The political leadership insists on an obviously mistaken and harmful policy, both for reasons of ideology and in order to stay in power. Reforms are blocked regardless of their effects. The political leadership decidedly lacks “flexibility” and “innovativeness”; its actions are governed primarily by the pursuit of personal enrichment. The recognition of past mistakes is considered a sign of weakness and is therefore painstakingly avoided.

**15 | Resource Efficiency**

The government does not make efficient use of available economic and human resources because it has created a power-locked economy. Newcomers cannot access the country’s resources, which are controlled by power groups within the government. This severely reduces the development capacity of the economic system. The government pursues the so-called “constant pie orientation” policy: power groups in the central and regional governments have secured a constant set of benefits for themselves and are not interested in increasing economic or other resources. They fear that an increase of resources would start new redistribution struggles within the established power groups and thus trigger the emergence of new competitors that could seriously endanger the regime stability.

The government is not interested in coordinating conflicting objectives into a coherent policy. A high degree of weakness in conflict regulation characterizes the Karimov government. The most important reason is that conflict regulation provides the government with opportunities for corrupt gain. These corrupt solutions of conflict objectives often create considerable dissatisfaction and do not really end the conflict, but rather prolong it. As this provides continued opportunities for profit, these failures only increase the tendency toward hyper-centralization of the state. That is, government members are unwilling to leave conflicting objectives to other institutions because they can monopolize income through conflict solution. Moreover, leaving conflict resolution to an independent authority could undermine the government’s power.

The government does not take any serious measures to curb the country’s widespread and rampant corruption. In the 2006 Transparency International CPI,
Uzbekistan ranks 151st out of 163 countries. Government-controlled media prefer not to discuss the topic of corruption within government agencies. Fighting corruption is only an instrument in the hands of the government used for intimidating the non-compliant. Prosecution and courts consider corruption charges only when accusations of corruption – following from the instructions of the presidential administration – are brought against independent journalists, human rights activists or former policy makers who have fallen out of favor with the head of state and forced to retire.

16 | Consensus-Building

All political and societal actors agree on a stable social market economy and democracy as strategic, long-term goals. But in practice, they implement the opposite. The notion that there is a dichotomy within the ruling elite between members of the corrupt “old guard” on the one hand and a small group of young “reform-minded” politicians on the other, is but an illusion. Some parts of the ruling elite try to position themselves in the eyes of the international community as “reform-minded people without political voice and influence” in order to gain external political support during future power struggles. The entire ruling elite is utterly and completely incapable of promoting political and economic liberalization. If “reform-minded” politicians attained full power they would “reform” the existing economic system and resource distribution so as to increase their own private share.

Political actors advocating radical economic and political reform are represented in an opposition movement, specifically, in the Sunshine Coalition. In reality however, they have acquired their economic capital primarily as a result of their informal connections to the government, which makes one question the sincerity of their reform proposals.

Actions taken by political leadership in respect to political cleavages only contribute to their escalation into irreconcilable conflicts. The brutal clampdown on secular opposition parties, as well as Islamic opposition, particularly nonviolent Muslim dissidents, may lead to the emergence of insurmountable conflicts in the future.

The political leadership suppresses and excludes civil society actors from the political process. Since 2005, the political leadership has been taking energetic efforts to transform NGOs into GoNGOs (government-organized NGOs). The vast majority of NGOs were compelled to join the National Association of NGOs. This has resulted in a situation where only GoNGOs participate in the political process – as puppets. The authorities exclude independent NGOs from the political process and persecute those that resist. The progressive crackdown
on independent NGOs raises the likelihood that in the near future the only remaining non-governmental entities will be GoNGOs.

The word “reconciliation” does not exist in the vocabulary of the political leadership. Individuals victimized during the Soviet period were exonerated without taking into account whether they suffered because of crimes they committed or were innocent. This kind of “blanket” exoneration does not facilitate reconciliation between victims and their prosecutors.

17 | International Cooperation

Uzbekistan signed and ratified the most relevant international agreements, conventions and treaties necessary for its recognition as a modern sovereign state. The government, however, has yet to sign or ratify some important conventions, including two out of eight core conventions of the International Labor Organization on child labor. Throughout its 15-year reign, the government has not made any real effort to integrate thoroughly into the international community. The government insists that the country has its own unique way of development that does not entail adopting external methods. In recent years its tendency towards isolation and autarchy has notably intensified. Although the political leadership cooperates with individual bilateral or multilateral international donors, it considers external advice as undesired political interference and does not use international aid to improve its policies. The political leadership cooperates with donors only when such cooperation does not require any meaningful alternatives to the policy pursued by the government, and serves to consolidate the regime. In all other instances, the government regards cooperation as undesirable, sometimes going so far as to accuse interference in internal affairs of “democratic fundamentalism.” Criticism from international organizations results only in the government narrowing the scope of the organization’s operations in Uzbekistan. In July 2005, UNHCR assisted in the evacuation to Romania of 439 Uzbek citizens who had fled to neighboring Kyrgyzstan after violence in Andijan. In March 2006, the government ultimately called upon the UNHCR office to end its work in the country. In June 2006, the OSCE Center in Tashkent was downgraded to OSCE Project Coordinator, after several international staff members were denied accreditation.

The government acts unpredictably, without regard for the international community. Cooperating with the state entails major risks. The government has proven that it is not a credible and reliable economic or political partner in its relations with the international community. Over the entire period of its sovereignty, the government has not been eager to fulfill its principal obligations toward the international community, such as democratization, strengthening the rule of law and economic liberalization. To maintain its good image, the
government only pretended to fulfil its obligations. It frequently makes radical changes in its foreign policy partners and priorities depending on the situation at hand.

The political leadership cooperates selectively and sporadically with individual neighboring states and hesitates to accept the rules set by regional and international organizations. Its willingness to cooperate with neighboring countries is quite low and dictated by the short-term objective of consolidating the regime, rather than by a long-term strategy aimed at ensuring the economic and political stability of the region. The issues of transporting goods and using trans-boundary water resources constitute one of the stumbling blocks in relations with Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. Exchange of gunfire at the Uzbek-Kazakh, Uzbek-Turkmen and Uzbek-Tajik borders is quite regular. The border between Uzbekistan and Tajikistan is mined. There is no air connection between Uzbekistan and Tajikistan. A visa requirement was introduced for Turkmenistan and Tajikistan for traveling citizens in 2000. The visa requirement with Kyrgyzstan was lifted only in 2006. The free exchange of goods, capital and labor, as well as free trade between the countries has been made extremely difficult. Dialogue between representatives of civil society in Uzbekistan and neighboring countries is practically impossible.
Uzbekistan is facing serious social and economic difficulties. The majority of its population lives below or near the poverty line. Small- and medium-sized businesses face serious administrative pressure. The absence of any positive changes or clear prospects has affected a feeling of hopelessness and despair throughout Uzbekistani society, provoking discontent and localized social protests. The main obstacle and barrier to the country’s political and economic transformation is the regime itself.

Socioeconomic difficulties do not automatically lead to social protests demanding democratization and economic liberalization. Regardless of their most resolute rhetoric, the Uzbek opposition could not realize this goal. Despite widespread fears, so-called Islamism does not have much influence. After profound Soviet secularization, the society is not ready to embrace the ideology of Islamic purism. The country has no integrated network of Islamic groups that would be able to formulate intelligible political and economic programs for all strata of the population. The Islamists will not be able to seize power in the near future.

Uzbekistani society’s ability to launch peaceful change from within is subject to significant constraints. Uzbekistan holds the greatest potential for a volatile and violent political transition in the CIS region. The combination of an autocratic government, weak state institutions, unstable economy, oppressive social and religious conditions, and a generally frustrated population breeds political instability throughout this part of the CIS region. The current demographics and population growth will also play a critical role in the outcome of any political transition, which will have significant implications for the entire region. Under these dire circumstances the international community should start paving the way for peaceful change. Peaceful strategies should include:

Providing more political, financial, technical and organizational support for remaining civil society structures as well as for opposition parties in and outside of Uzbekistan; producing and broadcasting programs in the Uzbek language through radio, satellite television and the Internet in order to provide the people with independent news and analyses as well as to promote democratic values and consciousness;

Intensifying face-to-face engagement, particularly for young people;

Developing relations both with political figures at the regional level (Hokimiyyats will play a significant role in the redistribution of power and
resources under a new central government) and with second- and third-tier officials in order to promote democratic values and consciousness within the state apparatus;

Establishing contacts to the military, judiciary, police forces and other security services in order to avoid massacres on the scale of Andijan in 2005;

Attempting to launch a “dialogue” with President Karimov on arrangements for exiting peacefully from political power, combined with indications of the alternatives (financial sanctions and legal cases);

Strengthening EU sanctions against the government and devising other sanctions to isolate members and supporters of the political leadership by publicly identifying companies and bank accounts they control to highlight alleged corruption and prepare legal cases for economic crimes.