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Executive Summary

The year 2010 was marked by a number of events and developments that either had an impact on the Uzbekistan’s political, social and economic transformation or highlighted the current status of the country’s transformation. The following developments were especially notable:

- the crackdown on a selected number of “oligarchs” in Uzbekistan who became “dangerous” for the regime or an obstacle to the economic activities of the president’s family;
- the April upheaval in Kyrgyzstan that was followed by inter-ethnic violence in southern Kyrgyzstan; the refugee crisis spread across the border into Uzbekistan;
- the staged “bankruptcy” of Zeromax GmbH, a holding company formally registered in Switzerland but said to be controlled by the president’s daughter, Gulnara Karimova;
- and finally President Karimov’s speech at the joint meeting of the upper and lower chambers of the parliament on 12 November, in which he proposed some amendments to the constitution and succession mechanisms for handing over presidential power.

The political developments in neighboring Kyrgyzstan have had a particularly strong impact on internal politics in Uzbekistan. The April upheaval in Bishkek, followed by the overthrow of President Bakiyev and ethnic violence in southern Kyrgyzstan, was perceived with mixed feelings and even provoked a rise in nationalism in Uzbekistan. These regional disturbances created a wide-scale refugee crisis; there was a huge outflow of ethnic Uzbeks whose houses and communities were attacked by Kyrgyz nationalists in Osh and Jalalabad across the border into Uzbekistan. President Karimov’s response to the crisis in Kyrgyzstan was well calculated. International observers praised him for restraining from military interference, and especially for quick deployment of refugee camps in the Uzbekistan part of the Fergana Valley, where
hundreds thousands of refugees where accommodated. With equal success the Uzbek authorities were able to expel the refugees back to Kyrgyzstan. This very well organized, wide-scale operation to deal with the refugee crisis has highlighted a comparatively high level of administrative mobilization and the authority of the central government in Uzbekistan, especially notable against the backdrop of the state failure in Kyrgyzstan.

It was an important moment for President Karimov, who was able to demonstrate his triumph by building a strong base of executive power that is capable of securing and maintaining law and order and asserting sovereignty upon the whole territory of the nation. But this triumph did not change the fact that executive power in Uzbekistan remains absolutely unaccountable to society and is not counterbalanced by any other powers, whether a freely elected parliament, an independent judiciary or a free press.

**History and Characteristics of Transformation**

The Karimov regime can be described as a neo-patrimonial system of rule that features the combination of elements of formal-legal mechanisms of governance with a patronage-clientelist style of politics. An intrinsic element of Karimov’s style is a constant balancing between different informal factions within the government, deliberately creating rivalries between various groupings. The president styles himself as a supreme referee standing above these conflicts within the government.

In December 2009, the law enforcement agencies in Uzbekistan began a new wave of purges. This time, they targeted the so-called oligarchs, a group of wealthy businessmen associated with one of the rival factions within the government. The areas in which these businessmen operated, namely the bazaars and hotels, have been the resource base mainly for the police and tax inspection offices. The very fact that they were targeted by the National Security Service (NSS) indicates the ongoing competition between two major power-wielding departments: the Interior Ministry and the NSS. These purges can be seen as a new round of struggles for resources and political influence, especially in the context of the coming demise of the Karimov era.

The same context informs interpretations of the bankruptcy of Zeromax GmbH, an all-mighty conglomerate that is registered in Switzerland but is said to be controlled by the president’s daughter, Gulnara Karimova. Thanks to presidential patronage, this company has acquired one lucrative chunk of the national economy after another, mainly export-oriented sectors including the mining industry, oil and gas transportation, cotton and textiles. However, suddenly the prosecutor’s office opened an investigation into the company, ostensibly for tax evasion and debts to foreign investors. No one has taken into consideration the fact that, with encouragement from the government, this company sponsored a number of ambitious and costly projects, including a football club and the construction of palaces and other prestigious public buildings. During the same period of time, the Western press reported the deposit of about $600 million
into Gulnara Karimova’s personal Swiss bank accounts. The coincidence of the bankruptcy and the appearance of an immense amount of cash in the president’s daughter’s accounts most likely indicate that Karimov no longer considers his daughter as his successor to the presidency, a scenario that has been the subject of broad speculation in the international press.

Karimov’s speech on 12 November 2010 to the joint session of the two chambers of the Oliy Majlis (parliament) has only confirmed this course of developments. Quite unexpectedly, he proposed two amendments to the constitution. According to the first one, in case of his death or physical incapacitation, presidential power is to be assigned to the Senate chairmen for the transitional period. The current constitutional provisions on this point have been quite obscure and created uncertainty as to who would take over the presidency for the transitional period until the next elections are held.

The second proposed amendment aims to delegate the right of nominating the prime minister from the president to the party that holds a majority of seats in the Parliament. These two proposals seem to shift the weight of power out of the hands of the executive branch and empower the parliament, especially its upper chamber, the Senate. But given the rubber stamping nature of the current parliament, which was not elected through truly free and fair elections, and the fact that Karimov himself in his speech did not suggest anything that would provide free elections in future, it would be a mistake to suggest that his initiative promotes the separation of powers. As a de jure elected branch of government, the parliament remains de facto an integral part of administrative power, yet not as independently voting legislators; the president’s office decides who is to take seats in the parliament. At the same time, though the Karimov initiative can by no means be considered a step towards the separation of powers, yet it does bring about some institutional changes. It institutionalizes to some extent the system of checks and balances within the executive government, the system that has been nurtured and managed by Karimov in his neo-patrimonial political style.

It is clear that in 2010 a new round, likely the last one, of the Karimov regime’s power plays has begun. The period Uzbekistan is entering will be marked by the intensification of struggle for the acquisition of power in the post-Karimov era. The outcome of this struggle will have a decisive impact upon the further course of political, social and economic development in Uzbekistan and define its place and role in the region of Central Asia.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The state’s monopoly on the use of force is established nationwide in principle and is not challenged openly. The challenges to the state’s monopoly come not from societal groups, such as organized crime or insurgency, but mainly from the inner circles within the state apparatus itself. The entire scope of powers is concentrated in hands of the executive branch. Other branches of the state, the parliament and the judiciary, have only nominal powers and therefore are unable and incapable of exerting real control over the means of force. As a result, the state’s monopoly on the use of force turns out to be the executive branch’s exclusive control over the means of violence. The second problem is the still ongoing strain along the vertical axis of executive power itself, or in other words the divergence between the central and local governments in terms of their interests. The patron-client networks that often control local governments tend to co-opt law enforcement agencies to serve their own group interests. In December 2010, the hokim of Samarkand oblast, Uktam Barnoyev, was sacked by presidential decree. His resignation was followed up by firing the heads of oblast departments of the police and prosecutor offices. Some local observers suggest that the sacked officials were affiliated with criminal networks and had used their agencies’ powers to serve their group interests. The persistence of this deviance of local government office holders from the constitutional order is proven by the fact that Mr. Barnoyev was appointed hokim only in 2008. His predecessor, A’zamjon Bakhromov, was fired and even detained on similar charges of corruption; his prosecution was also followed up by the dismissal of bosses in the oblast police and prosecutor office.

Given the absence of the rule of law and the accountability of state apparatuses, especially law enforcement agencies, the only factor that makes local officials abide by the law is the fear of persecution; the central authorities engage quite frequently in periodic cadre purges. In periods between the purges, the local authorities, which are not elected themselves and thus are also not accountable to society, tend to be...
seized quickly by local patron-clients and criminal networks. The latter thus regain their control, via loyal officeholders, over the power-wielding structures that then resume serving private interests.

After the departure of the current president, the state’s monopoly on the use of force could easily become fragmented all over the country.

Major groups in society accept and support the official concept of the nation-state. All individuals and groups enjoy the right to acquire citizenship without discrimination: access to citizenship is very rarely denied to particular groups on the basis of race, gender, language, religion, political or other opinions, national or social origin, property, place of birth or other status. However, at least two ethnic minority groups, Tajiks and Karakalpaks, may suffer from disregard for their rights to cultural autonomy or deprivation of sufficient social support; the latter is especially the case in Karakalpakstan.

The state is secular. Religious dogmas have no direct influence on the legal order or political institutions.

Interference takes place in an old Soviet pattern: in spite of the declared separation of the state from religion, the government admits to various forms of interference in religious affairs. The presidential administration and security services control the appointment of imams, the selection of pilgrims to Mecca, the curriculum and the faculty in Muslim schools, Islamic university and madrasahs. Any divergence from the officially endorsed forms of religious worship and education is strictly punished, and those who engage in such behavior can be accused of membership in illegal associations, which is considered a major crime and can be punished with a long term of imprisonment with very low chances of getting amnesty.

But certain religious dogmas affect state policies by entering politics through the proverbial back door. Local Muslim clerics who adhere to Hanafi Islam and local religious traditions associated with prominent domestic theologians find in the state an ally that prevents the importation of religious beliefs and schools from other parts of the Muslim world, especially from the Middle East. The government embraces this union with Hanafi followers for its own reasons: primarily to secure regime stability and secondarily for its nationalistic nation-building project. The government also views Hanafi Islam as one of the sources of patriotism that cherish local traditions and dismiss foreign influence.

The administrative structures of the state provide most basic public services throughout the country, but their operation is deficient to a high degree. The executive is the strongest branch of the government and totally dominates state and society. It is de facto not accountable to society, parliament and the judiciary. The state administration demonstrates a strong capability for securing social order throughout the country. The administration engaged in a strong mobilization in June
2010 when hundreds of thousands of refugees from southern Kyrgyzstan were accommodated and sheltered in the Uzbekistan part of the Ferghana Valley. This strong administrative mobilization recalls the Soviet era, when hundreds of thousands of people could be either evacuated or mobilized for ambitious economic projects, often against their will. This administrative mobilization, however, usually works for short term campaigns and proves to be unsustainable for longer terms. It can work for commanding the mass allocation of people to tasks – for instance, in mobilizing school children to pick cotton – but fails to address issues of social and economic governance and development, such as providing heating and gas supply during the winter season, or dealing with wages and pensions, or the collection of taxes and utility bills.

2 | Political Participation

Although the constitution provides for universal and equal suffrage in free, fair and periodic elections conducted by secret ballot, elections held at all levels of authority – from mahalla (neighborhood communities) committee chairs to parliament – are neither free nor fair. The competitive nature of elections is entirely staged: Both “winners” and their “challengers” must undergo a process of careful pre-selection and approval by the authorities. At the mahalla chairmen elections, only local hokimiyats are entitled to nominate the candidates; the mahallas chairmen are also being paid salaries by the local hokimiyats and are therefore totally subservient to them. In Soviet times, the mahallas were left on their own and enjoyed certain social freedoms; today, they have been swallowed by the local administration and have become the driving force for executive power at the local level.

The parliament and the president are not democratically elected. Parliament and presidential elections, held periodically every five and seven years respectively, are neither fair nor free. The current president’s term in office has far exceeded the maximum of two terms stipulated by the constitutional law. His presidency has been extended a number of times by using various legal tricks.

There is no freedom of association and assembly in Uzbekistan. The government bans and criminalizes any opposition to the ruling regime. A number of opposition figures have been imprisoned while others have been forced to flee the country. No opposition parties have been able to register and run for election. There is no freedom of the press that would provide a forum for expressing political views equally among all political actors. The government totally controls and censors the press and does not permit any critiques of the existing political regime.

Only a few parties have been registered and taken part in parliamentary elections, and these parties are in the pocket of the ruling authorities. For this reason, parliament can be considered a rubber-stamp office, totally controlled and

Free and fair elections

Effective power to govern
dominated by the president and his office. President Karimov had already ruled the country for 21 years, becoming de facto a president for life, in violation of constitutional norms that do not allow re-election of the same person for more than two terms. Whenever the time for new presidential elections arrives, either his presidential term is extended by a staged referendum or some legal tricks are invented to justify his re-election for a new term.

The political opposition to the regime is brutally suppressed. Under constant fear of repercussions, mainstream society is wary of involvement in politics and any form of dissent. Those who are detained for their political views are most likely tortured and receive heavy sentences. Political and social groups are completely denied the freedom of association and assembly. Politically relevant civic organizations have ceased to exist and are, as a rule, suppressed should they emerge. Opposition parties such as Birlik, Erk, Ozod Dehqonlar and Sunshine Uzbekistan, are either prohibited or systematically denied registration. Though it is technically possible to establish a new NGO, the process is excessively complicated and arduous.

There is no freedom of opinion or of the press. Despite government’s declared end of censorship in May 2002, citizens, organizations and the media cannot express views and opinions freely. Uzbekistan is one of the 15 countries classified as an enemy of the Internet because the government blocks sites featuring criticism of the regime. There are lists of forbidden topics, words and visual materials for all types of media outlets, the obvious targets being freedom of thought. International NGOs and media, with a very few exceptions, cannot operate in the country because they are denied accreditation.

3 | Rule of Law

The separation of powers exists on paper only. The government has repeatedly declared its commitment to building a state based on the rule of law and the necessary legislative changes have been in place since 1992. The constitution provides for separation of powers between a strong presidency and a bicameral parliament called the Oliy Majlis (supreme assembly) with the power to approve the budget. In practice, there are no institutionalized checks and balances, and no identifiable separation of powers. The president and his administration dominate the executive, legislative and judicial branches of government. The parliament is not elected freely, according to the real rules and norms of electoral democracy. The selection of MPs is subject to pre-approval by the presidential office. Only those parties created and controlled by the government are allowed to take part in elections. They never criticize the exiting political regime and never stand up to defend the interests of the population they purport to represent.
The decisions and doctrine of the judiciary are severely constrained by functional deficits such as limited resources and rampant corruption. An informal political hierarchy of legal and law enforcement institutions secure the judiciary’s dependence on political authorities and executive power. As a rule, the courts do not dare object to the rulings delivered by the prosecutor’s office, which ranks above them in terms of political power, funding and influence. Moreover, according to the so-called “telephone law,” court rulings are often influenced by telephone calls from powerful officials in the presidential administration and security services. In 2008 the government introduced habeas corpus, but it does not work adequately because of the lack of real independence among judges. There are numerous barriers that deprive detainees of access to legal defense. In politically motivated cases the detainees cannot chose legal defenders on their own. The prosecution of inquiry and investigation often violates the criminal procedural code norms. Because the assumption of innocence is not established as a guiding principle of investigation, investigators rely heavily on psychological pressure, torture and ill-treatment to extort confessions. The judges uncritically accept these confessions often as the only foundation for producing a verdict, and as a rule they ignore the defendants’ statements about having been tortured during the investigation process.

The state also ignores and disrespects the independence of legal profession. It has abolished the Bar Association, which demonstrated some degree of autonomy in the recent past, and replaced it with the Chamber of Lawyers, an organization totally controlled by the Ministry of Justice. In 2008, the Ministry initiated a re-examination of the lawyers who already had licenses entitling them to work as lawyers. As expected, the examination was used as an instrument to get rid of some prominent lawyers and deprive them of their licenses. These measures were evidently meant to intimidate the Uzbek legal community and remind them not to be so outspoken in defending their own independence.

Office abuse has a systematic character within the governance system in Uzbekistan. Even a very low office is considered by its officeholder as a “financial instrument” to create “profit” because it must be “bought” before getting appointed. Uzbekistan remains one of very few post-Soviet countries that has not yet introduced, conceptually and by law, the distinction between civil servants and holders of political office. The civil service law is still absent even in legislation. As a result, those working in the state and government offices at the central and local levels are not accountable to society and its representative bodies. The notion of the conflict of interest is totally unknown to the state and civil servants. This conceptual and legislative gap creates a space for numerous abuses of office. Officeholders are often involved, through relatives and other kinds of clients and proxies, in private business affairs, and they use their government position to promote this business, either by affecting regulations to benefit close partners or by diverting state budget resources into the hands of these partners.
Due to the absence of a strong and impartial judiciary, lawbreakers within the state apparatus have in fact become unrestrained in their corruption. Although corruption is an acute and chronic problem, fighting it is not on the government’s agenda. Legal and political penalties for officeholders who abuse their positions are limited primarily to the removal of those who have acquired too much political and economic clout.

All civil rights in accordance with international human rights standards are encoded in the constitution and legal code. However, in practice, civil rights are severely restricted. The president’s decrees on introducing habeas corpus to Uzbekistan’s legal system and abolishing capital punishment, both of which were introduced in 2008, have had no practical impact, as systematic torture, ill-treatment and extrajudicial killings in custody and detention facilities continue. Under the pretext of fighting terrorism and radical Islam, the police and the National Security Service forces have arrested and tortured thousands of non-violent Muslims. Criminal law provides for immediate means of redress and protection. But there is indeed a wide discrepancy between legal norms and their implementation, a gap which is rooted in traditional stereotypes regarding the roles of women and men in society.

Uzbek citizens are heavily restricted in exercising their freedom of faith. They are deprived the right to change their faith. Proselytism is considered a criminal offense in Uzbekistan. A number of spiritual leaders of Christian congregations have been arrested for continuing their service for their followers. Within Islam, the government also restricts any religious activity and education that is not endorsed and directly controlled by the state.

4 | Stability of Democratic Institutions

Uzbekistan is an authoritarian state with an anti-democratic establishment. The “democratic” institutions are merely a façade and part of its authoritarian regime. 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. Presidential power is buttressed by its exclusive control of the law enforcement and security agencies, the prosecutor’s office, the army and other military units.

Uzbekistan is ruled by a cruel dictatorship with a kleptocratic government on the top and has no meaningful democratic experience. It is therefore impossible to evaluate commitment to democratic institutions, whether among political elites or in Uzbekistani society. On one hand, society is afraid of uncertainty and further instability, and on the other hand, it is paralyzed by the fear of repression. As a result, the political opposition is suppressed and squeezed out of the country, while the rest of society has no choice but to demonstrate loyalty to the existing regime.
This loyalty is driven not by genuine mass support of the policies pursued by the government, but rather other things by the established system of patriarchal values. Therefore, the government cultivates loyalty to these patriarchal values and imposes this loyalty on the whole society. In 2009-2010 the authorities launched a relentless attack against those intellectuals and civil society activists whose activity was viewed as damaging to the patriarchal values enshrined by the conservative political leadership. Prominent photographer Umida Akhmedova was charged for releasing a photo album and documentary that suggested a critical view of women rights’ abuses associated with family- and marriage-related patriarchal customs. Another activist, Maksim Popov, was sentenced to seven years merely for his educational activity on HIV-related issues. He was accused in propaganda of pornography and damaging public morality. These two examples are not exceptional; they represent an integral part of internal politics that aims to create a social and cultural environment incompatible with liberal views and a sense of individual freedom.

To promote the sense that there is no alternative to the current brutal regime, the state propaganda perfectly exploits disturbances in neighboring countries. People remember the civil war in Tajikistan and its catastrophic consequences, and the authorities intentionally fuel these sentiments. The violent events in southern Kyrgyzstan in 2010 resulted in the split of this country into two political regimes, an impotent one in Bishkek and a chauvinist one in Osh, and this has also fuelled the belief that only an authoritarian regime such as Uzbekistan’s is capable of securing law and order to protect the population from instability.

State propaganda presents any criticism that targets the country’s leadership as a transgression of established law and order and therefore dangerous for the state security. If the criticism originates from the West, the government presents it as an “attack against our values and our own people.” At the same time, the government has not been quite as successful in inspiring a sense of patriotism that would generate popular loyalty to the political leadership. One sign of this failure is the decision adopted by the parliament in December 2010 that makes disrespect to established state symbols a punishable act. Henceforth, anyone who fails to observe necessary rituals, namely to stand up and put the right hand on the left side of the chest when the national hymn is performed, can be fined for two months’ minimum salaries.

5 | Political and Social Integration

The parliament consists of two chambers: the legislative chamber and Senate. Only four parties are represented in the legislative chamber, and all of them are puppet parties and “agents” of the presidential administration with no independent views among their members. These are the Liberal-Democratic Party (53 seats); the National-Democratic Party (32 seats); the Millyi Tiklanish party (31 seats); and
Adolat, the Social-Democratic party (19 seats). All of them are in fact created and controlled by the presidential office. The parties and their platforms are barely known to society. It is conspicuous that there are no significant differences between the platforms of these parties. Consequently, they neither enjoy popularity nor do they have any significant social base.

Interest groups are present only in isolated social segments, and they tend not to cooperate with other interest-based organizations. A large number of social interests remain unrepresented because it is primarily informal networks within the political system that represent the interests of elite groups. Clientelism is the main mechanism within the political machine, and all significant domestic actors are clients and supporters of the president, or are members of those circles close and loyal to the president. At the same time, their loyalty is often for show, while in daily reality domestic office holders may pursue their own agendas, driven by their private interests or the interest of patron-client networks to which they belong.

The president tacitly encouraged the emergence of these patron-client networks, largely to ensure his control over competition for resources. Although the names of these groups are originally derived from regions such as Samarqand, Bukhara, Tashkent or Ferghana, they have lost strict affiliation to these regions.

In the period under observation, the patron-client networks have been created around powerful departments, offices that control certain segments of the state and society. These networks create coalitions to counteract the influence of rival networks. These alliances, however, are quite fluid and may take on different configurations. For the moment, the observers distinguish at least two powerful groupings within the government, one led by Premier Minister Mirziyaev and another by Finance Minister Azimov. Both groupings compete with each other for the influence over the president and for better, more advantageous positions for the day when Karimov leaves office, which could happen any day now, given his old age.

In addition to voicing anti-democratic rhetoric (e.g., accusing the European Union and the United States of exporting “democratic fundamentalism”), the government prevents the circulation of democratic ideas and concepts among the population. There is a general sense of political apathy and fear among the population, as well as a lack of trust in any political institution. 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.

Fearful of losing its grip on power, the government has sought to minimize the capacity for self-organization in society. Uzbekistan’s growing informal sector and dramatic poverty rates have produced a dichotomous process in which one type of social capital is destroyed and replaced with another. Against the backdrop of lack
of trust among the population in the integrity and reliability of public institutions, there has been a dramatic increase in the number of reciprocity rites, and informal networks have become increasingly important. The capacity to self-organize is distributed unevenly in society and depends on an individual’s ethnic background, lifestyle (rural/urban), level of education and professional qualification. That said, the population, especially ethnic minorities, tend to associate on common ethno-cultural membership or religious faith than on the basis of other civic commitments. This can be largely attributed to the patriarchal environments that dominate many segments of society.

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality are extensive and structurally ingrained. The transition from a Soviet-style planned economy to a social market economy has failed entirely. A kind of state capitalism with strong elements of a command economy and oligarchic capture of key national resources has emerged instead. Although the government has announced economic reforms and plans to support to small- and medium-sized enterprise, the government continues to exercise firm control over all significant economic sectors and activities in the country. The government has failed to implement privatization and meaningful reforms in the agricultural sector. Farmers’ property rights are widely abused. In 2008, the government issued a decree according to which the lands of half of private farms were confiscated under the pretext of extending farm tenures and thereby encouraging farmers to use machinery. But the reason for the poor use of machinery in the agrarian sector is not the small size of land tenures; instead, it is the government policy of understating procurement prices for the output, well below world prices, while input prices are based on market demand and supply and are often monopolistic. This is especially the case for the cotton and grain sectors, which dominate agricultural resources. There are no free competitive markets for outputs and inputs in these sectors of economy.

The government’s exploitative approach toward the farming sector makes those working in this sector socially disadvantaged in comparison to urban-based private businesses. The compulsory work in cotton fields aggravates the social condition of the rural population, especially women and children. At a time when the male population in villages escapes to other countries to look for jobs, the burden of compulsory agricultural work lands squarely on the shoulders of women and school children.
There is a social disparity between the regions: some of them have been more affected by environmental crises and disasters than others. The most negatively affected is Karakalpakstan, especially in those zones populated by Karakalpaks. The water extensively used for agricultural purposes at the Amudarya upstream basin barely reaches the downstream zone where Karakalpakstan is located. Those waters that do reach this zone are highly saline, contaminated by agrochemicals, and do not meet sanitary and quality standards, which leads to a constant shortage of drinking water in this part of the country.

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<tr>
<td>Import growth</td>
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<td>Military expenditure</td>
<td>% of GDP</td>
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7 | Organization of the Market and Competition

Although the legal framework necessary for a successfully functioning market economy is in place, market competition is present only in small and insignificant segments of the economy. The “market” in Uzbekistan is a phenomenon peripheral to power. There are no uniform rules for “market” participants. Different standards are applied to different categories of “market” actors. Nepotism and bias in the application of law is commonplace. This has been possible due to the absence of rule of law and the lack of independence among the judiciary. The latter is totally dominated by the executive branch of the government. It is almost impossible to do business in Uzbekistan without making deals with state officeholders and paying them bribes on a regular basis, as a kind of informal license fee on top of all existing tax duties.

As a result of the limited opportunities to do business strictly according to existing formal rules, the informal sector and the system of informal transactions are substantial. The government responds to challenges posed by informal sector by further tightening its grip on the economy and introducing new draconian restrictions.

The state intervenes heavily in the economy through over-regulation and continues to control pricing in most sectors, including agricultural markets. It also subsidizes a number of large enterprises and restricts foreign investment inflows. Private sector activity remains subdued or hidden within the large informal sector. In the agricultural sector, the government strictly regulates the operation of private farms. Fair competition is significantly limited due to rampant corruption, the absence of legal protection for entrepreneurs, and the fact that sub-national authorities frequently seize the financial resources of private and public enterprises.

Some regulation to prevent monopolistic structures and conduct exists in rudimentary forms yet is rarely enforced. 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.
Foreign trade is largely state-supervised and controlled by regime members. The economy is extensively dissociated from the world market, which might have had some positive effects during the global finance and economic crisis. During the review period, legal regulations and the government’s informal activities have served to restrict foreign trade liberalization significantly. 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 the repatriation of profit. In spite of declared free currency exchanges, both for retailers and business purposes, there have been recent reports that the president himself endorses the purchase of hard currency in Uzbek sum in transactions exceeding $100,000 in value. This micro-management in foreign trade demonstrates how the government is reluctant to embrace market mechanisms.

Foreign trade policy remains restrictive. Effective rates of protection against consumer imports are high. The government imposes a heavy regulatory burden on individual entrepreneurs and petty trade business. The situation is further aggravated by the widespread practice of bribery and extortion by local government officials, tax and law enforcement agencies. 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, which affects the domestic marketing of imports. Export activity is restricted by requiring licenses and government approvals for most important commodities, such as cotton, chemicals and so on. Additionally, the restricted currency exchange regulation also discourages free foreign trade activity. Only those foreign trade deals are supported that are controlled either by the central government or by state-controlled corporations.

Banks are largely state-owned or state-controlled; there is no real capital market. The government used the global financial crisis to strengthen its grip on the banking system.

The government was not really interested in forming a solid banking system, nor did it undertake efforts to create 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 activity. Rampant corruption and mismanagement, as well as requirements dictating that all transactions with enterprises must be settled in a non-cash form and the obligation that all businesses must deposit their earnings in a bank account on a daily basis, have also contributed to low public confidence in the banking system.

It is common for the private and commercial banks to experience interference from the state, whose law enforcement agencies are entitled by the state to invade the privacy of individual back accounts under the pretext of security interests. The law
enforcement agencies have also been used to crush those banks whose owners did not agree to cede control over their bank to powerful groups associated with the president’s family.

8 | Currency and Price Stability

The inflation and foreign exchange policies are the subject of the central bank’s responsibilities. The bank regulates these spheres mainly by applying administrative measures, not the instruments adequate to market economy. The bank itself is far from being an independent institution and goes along with overall government policy, which itself only emulates market-friendly policy; in practice and by nature, it is mercantilist, rent-seeking policy.

Whereas inflation control is purportedly a component of the economic system, it is institutionally and politically subordinated to other goals. The government seeks 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 as well as for increasing the wealth of regime members and close relatives of the president’s family. At the end of 2003, local currency conversion was introduced but not really practiced. The free use and transfer of profits encounter political and administrative barriers. Local currency exchange rates were harmonized primarily through monetary measures, wage and pension arrears, blocking access to individual bank accounts, and the presence of artificial barriers between cash and bank transaction forms of money, all of which diminish the value of transactions. Officially, the inflation rate is at 3.5%. However, international financial institutions point to the escalation of prices for electricity, gas and food products, petrol and medicines, as well as higher costs of production and increased wages, estimating the actual inflation rate to be at least 20%. Two indicators allow for more realistic estimation of the inflation rate. The first is the interest rate set by the central bank. In December 2010 it was re-approved at the rate of 14%. The second is the interest rates for deposits set by commercial banks. In 2010, Uktambank and Samarkand Bank offered up to 30% interest rates per annum for individual deposits. These two figures suggest that the real inflation rate varies between 20% and 25%.

The government employs quite restrictive fiscal and debt policies. It is careful not to let debt, especially the external debt, reach levels that pose a risk to the national economy. First of all, the government restrains from borrowing too much from external creditors. As a result, during the last several years, the external debt remains almost on the same level, at $4.11 billion in 2009, in spite of global economic and financial crises. The government has had less success in managing the public debt, which was 9.6% of GDP in 2009, slightly lower than in 2008 (10%). The public debt is being addressed mainly by cutting public expenditures.
and raising utility bills, taxes and prices controlled by the government. 2010 witnessed all these fiscal measures, including cutting public welfare commitments and raising prices, utility bills and taxes. Even these fiscal measures didn’t alleviate the situation and the central bank was yet again prompted by the government to infuse money into the banking system, which resulted in a new wave of hyper-inflation. Indications of the strains experienced by the budget and overall financial system are rising interest rates and the widening gap between official and black market currency exchange rates. In September 2010, the official exchange rate was 1600 Uzbek sum per U.S. dollar, whereas in the black market one U.S. dollar could be bought only for 2200 Uzbek sum. This gap between official and unofficial exchange rates creates a huge space for black market speculations and the rise of criminal groups that control the markets of currency exchange. It also fuels corruption in the police and the banks. Thus, this affects both macroeconomic and social stability.

9 | Private Property

Property rights and the regulation of the acquisition of property are defined formally in law, but are neither implemented consistently nor safeguarded adequately by law, especially against state intervention. The matters of acquisition, use and revenue generation from private property and its sales depend entirely on the arbitrary decisions of government officials. Cases of private property “expropriation” by government bodies are quite frequent, and such actions benefit of members of the regime and the president’s family.

Although private companies can, in principle, act freely, they encounter in reality huge economic, political and social barriers to development. This is especially true of the agricultural sector, where so-called private farmers are de facto treated as serfs or peasants. The state dictates to them what crops they can plant, to whom they will sell their produce, and at which price. In late 2008, the government adopted a resolution that prompted a wide-scale campaign of liquidating private farms under the pretext of their enlargement. Around one half of all farms were liquidated. The process was highly arbitrary and did not necessarily take into account the farms’ economic performance; the process was also fraught with corruption.

State companies and monopolies built up by regime members dominate all strategic business sectors. At the same time, the government declared its commitment to support the private sector and small and medium enterprises. But regulations in this sphere lack transparency and are sometimes inconsistent and unevenly applied.

In 2010, Uzbekistan was ranked 150th out of 183 economies according to the Ease of Doing Business Index of the International Finance Cooperation (IFC, a World
Bank group). According to the IFC, it takes 15 days to start a business in Uzbekistan. The IFC assessed trading across the border very negatively (169), along with paying taxes (154) and dealing with construction permits (145); the most favorable rating was for enforcing contracts (44).

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%). The government has neither reduced its shares in state-owned companies nor made moves to withdraw itself entirely from them, despite having made several promises to do so. There have been cases in which a properly privatized company has then undergone a reverse process of de-privatization due to interference from the authorities.

Private businessmen are often subjected to harassment and extortion by various state agencies and inspections, beginning at sanitary inspections and ending with local hokimiyat. Companies are often obliged, against their will, to fund various charitable activities, especially sporting events and clubs. Under these conditions, businessmen are forced to consider how to protect their businesses from all of these inspections, which have a devastating effect on their business. The solution is usually found by seeking patronage among state officeholders and paying them regular ‘fees.’

10 | Welfare Regime

Social networks are developed only partially and do not cover all risks for all segments of the population. Considerable portions of the population are still at risk of poverty. The system of social protection fails to provide for even basic needs. State salaries and pensions are below actual subsistence levels and not always paid in full.

If the pensioner is continuing to work for a salary, then one half of her pension is withheld by the authorities. In December 2010, the government cut pensions to those people who used to work in ecologically hazardous zones and were entitled to payments in addition to their standard pensions. The government has also abolished subsidies to some categories of the disabled.

Above all, local authorities frequently compel pensioners to spend part of their pensions on lottery tickets and subscriptions to government newspapers. For the last two years, pensions have begun to be paid into the pensioners’ debit card accounts. This method of payment was imposed by the authorities in order to squeeze the amount of cash circulated in the market, but without taking into account the poor institutional environment for such kind of transactions in Uzbekistan, a system that is often at odds with the will of the people. This caused a lot of trouble and loss in
value for debit card holders as the cards are not accepted in many retailing facilities, especially in bazaars. Cashing in the debit cards is also difficult because cash machines are not supplied with sufficient amount of cash.

The system of voluntary insurance against illness, unemployment and disability is in its nascent phase. There is no mandatory public insurance and no effective security against unemployment; indeed social protection systems exist on paper only. The government and its labor agencies artificially suppress unemployment statistics, reporting unemployment rates below 1%. However, independent survey data suggest that unemployment is at least 20%. But taking into account underemployment, when a job is available but at very low remuneration, the rate may be as high as 45%. Unemployment pressures have been partly mitigated by massive labor emigration, mainly to the relatively wealthier states of Russia and Kazakhstan. Uzbek labor migrants account for the biggest population of labor immigrants in these two countries and the largest amount of remittances sent back to Uzbekistan, which in 2009 amounted to $2.052 billion. This huge cash inflow has probably played the lead role in revitalizing the local market and creating new domestic jobs. The government evidently benefits a great deal from this export of labor, though it doesn’t contribute to it in terms of addressing the problems associated with the process of emigration, such as massive abuses of migrants’ rights by Russian police, criminal and racist groups. The period of work in other countries is withheld from the number of years of employment that make people eligible for state pensions.

Everyone, except orphans and the disabled, must pay for health services. Only state-owned enterprises pay child-care allowances.

There are institutions to compensate for gross social differences, but they are limited in scope and quality. Rural children and young people have fewer advantages in comparison with those living in big cities to acquire decent education. Some ethnic minorities are restricted to acquire education in their own language. Girls and young women have de jure and de facto equal rights for educations and often fulfill this right. But after graduating from colleges and universities and getting married, it is very common that they are urged to stay home and look after the household and their children. The patriarchal norms and values reinforced by the state propaganda and some policies are offsetting the effect of women rights as these are embodied in legislation and declared by the Uzbek government.

The Welfare Improvement Strategy Paper for 2005 – 2010, which was endorsed by the government, has yet to be put into practice. There are no really functional mechanisms that would ensure equal opportunities of employment in state institutions or guarantee equal access to public services. The lack of financial or social capital (i.e., social networks) among women, the disabled, socially vulnerable groups and some ethnic minorities, constitutes the main barrier to expanding their
access to public services. The government is not willing to introduce appropriate measures and mechanisms that would support these groups in society.

11 | Economic Performance

According to the government, economic activity grew significantly during 2008 and 2009 and GDP grew by 8.1% in each of these two years. The forecast of the Asian Development Bank (ADB) for 2010 was 8.5%. These claims, however, are not supported by indirect indicators such as living standards and unemployment that cause massive emigration. Uzbekistan is experiencing growth without prosperity for the entire population.

Partly, this economic growth can be attributed to the aforementioned remittances from labor migrants working in Russia, as well as the raise of world prices for Uzbekistan’s major export outputs: gas, gold and cotton. In 2009 and 2010, cotton prices on world markets grew dramatically from $0.55 per pound in August 2009 to $1.55 in December 2010. Prices for gold increased from $1,100 per ounce (calculated in Forex Gold Index) in January to $1,400 in December 2010. At the same time, the prices for wheat, one of the main import commodities, have also increased during the period under observation. The fact that internal prices for wheat, natural gas, petrol, utilities and public transport service saw significant increases in 2010, along with the increase of taxes, indicates the strains and the lack of revenues that the state budget experienced in 2010.

Apart from the ‘growth’ fuelled by world market prices, there has been almost no success in terms of production and productivity growth. High figures of economic growth normally would indicate the overheating of the national economy, but nothing suggests that this happening in Uzbekistan. Domestic production remained unhealthy. There is a high inflation rate, but it is driven mainly by the mismatch between low domestic productivity with the amount of money released by the central bank and cash circulated in the market. This is combined with tremendous unemployment, which is partly concealed by spontaneous labor emigration. This is why strict fiscal policy remained tight and the government preferred to eschew external borrowing. 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 informal and shadow economy. All in all, the climate for private internal and direct foreign investments remained very unfavorable. Internal investments have been sluggish for the following reasons: devastating taxation, open and hidden, overly strict administrative control and extortion, and the lack of rule of law. Major internal investments have been provided by the government, which controls most monetary resources, and government-controlled corporations whose style of management remains old-fashioned. Foreign investments also were sluggish for almost the same
reasons: the unpredictability and opacity of the national regulative system; corruption and the absence of the rule of law; and an absence of genuine currency convertibility. Those foreign companies who invested in domestic production have suffered from the inability to convert and export their incomes.

12 | Sustainability

Environmentally compatible growth receives only sporadic consideration and has almost no institutional framework. In the 2008 Environmental Performance Index, Uzbekistan ranked 107th out of 149 countries; in 2010 its rank was 144th out of 163 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, nature preserves constituted 5.5% of the country’s total area. However, given the difficult financial situation, many people plunder and poach plant and animal life in Uzbekistan. The situation is aggravated by rampant corruption of local administration and law enforcement agencies, which make those rangers who eagerly protect the nature reserves vulnerable for criminal poachers. In 2009, the head of the Amu Darya basin eco- and bio-inspection agency, Makset Kosbergenov, became a target for local corrupt authorities in retaliation because of his tough stance on fulfilling his professional duties. Only an international campaign for his release saved him from imprisonment.

Environmental awareness is basically non-existent in Uzbekistani society. Even parks in major cities have been subject to cases of unauthorized tree-felling for economic gain. Punishments for the violation of environmental legislation are seldom enforced. Civil society is not eager to raise the issue of environmental protection. The government is ostensibly supporting environmental NGOs and has even allocated a quota in the parliament for them. But this was done for political reasons: to use local environmentalists to win over international opinion in Uzbekistan’s dispute with Tajikistan over the construction of the Roghun hydro-electric station.

Education in Uzbekistan is run by the state under the direct and strict administrative control of the Ministry of General Education and the Ministry of Higher and Specialized Education.

Although private education institutions are legally possible, in practice any private initiatives to create schools independent from state control are subject to suspicion and closed down. Education is becoming increasingly commercialized through constant tuition fee hikes.
The government invests heavily in the education system. The rates are above the OECD average of 5.1% (2008: approx. 6.9%; 2009: estimated 7.5% of GDP). But a bulk of these investments goes to capital construction of new buildings with the beneficiaries found mainly among those officials who represent interests of construction companies. A very low share of funds goes to research, maintaining the library system, purchasing literature and improving the remuneration of the faculty, who then extort bribes from their students. It is very common for students to get higher grades in exchange for bribes to their tutors and university administrators. 69% of students study on a fee basis (individual contract) at the bachelor’s level, and 75% students study on a fee basis at the master’s level. The share of government-funded scholarships for students in the field of higher education is falling dramatically.

Since the dissolution of the Soviet Union, Uzbekistan no longer receives many professional journals and literature which are only available now for hard currency. The sharp fall in importing foreign literature has not been compensated for with the development of a publishing industry which, along with the poor condition of academic and public libraries, is very poor in comparison with other post-Soviet states, particularly Russia and Kazakhstan. The Uzbek government has been suspicious of international agencies and organizations that have tried to import educational literature into Uzbekistan in both printed and digital formats – for instance, through subscriptions to EBSCO and other international digital resources and databases – and provided opportunities to study at Western universities. The government scrapped its own ‘Umid’ program, which supported the study of Uzbek students abroad. As a result, education in Uzbekistan remains one of most isolated in the world in terms of academic, scientific and research institutions and networks.

Two factors affected the content and quality of education most profoundly: the lack of access to information and literature and the state’s ideological control of the curriculum. As in Soviet times, part of the curriculum is constituted by the ideological disciplines. Reading and memorizing President Karimov’s books is mandatory. The methods of tuition remain old-fashioned and authoritarian, encouraging rote memorization instead of independent and creative thinking. Free discussions in academic classes are very rare. The government has scrapped all programs on critical thinking that used to be promoted by international agencies and organizations.

Schoolchildren from rural areas and small towns are removed from school each year to help weed the cotton crops in the spring and later with the cotton harvest for a total of up to three months, which disrupts their academic process. This also serves to exacerbate disparities between rural and urban children in their access to education. Academic progress is further inhibited by inadequate technical and
information resources, underpaid teachers, under-qualified staff, a shortage of qualitatively good textbooks, insufficient equipment, insufficient gas and electricity supplies to the buildings, as well as the lack of close collaboration between educators, science and industry.
Transformation Management

I. Level of Difficulty

The structural constraints on governance are high. Key structural problems include an extremely disadvantageous geographical location in terms of foreign trade opportunities (Uzbekistan is a landlocked country and, along with Liechtenstein, is one of only two such countries in the world); high agricultural dependence on water resources that originate elsewhere, with up to 90% of water coming from neighboring Tajikistan and Kyrgyzstan; and the desiccation of the Aral Sea in combination with an environmental disaster in Karakalpakstan. The government’s ruinous and exploitative social and economic policies have brought about other structural constraints such as poverty, skilled workforce decline and emigration, severe infrastructural deficiencies and high rates of drug-resistant forms of tuberculosis and HIV-infections.

During the late Soviet period, Uzbekistan became a regional leader in terms of science and research capacities. A number of research and academic institutes of mathematics, physics, chemistry and biology emerged. All of these are in ruins nowadays, with an army of well-educated specialists finding themselves working in low-qualified jobs in Russia and Kazakhstan, or engaged in retailing petty business and services domestically. De-qualification of the labor force has become part of a creeping process of reverse modernization, with Uzbekistani society slipping back into semi-feudal social norms, customs and lifestyles.

Another serious problem is the persistence of the high birth rate (17.51 births / 1,000 inhabitants) causing rapid population growth and an increasingly high ratio of young people in the population. Each year, around three hundred young people enter the labor market without prospects of acquiring a decent job. The existing economic policies are not sufficiently favorable for free small and medium enterprise that would otherwise absorb this labor surplus. At the same time, the conservative leadership’s enforcement of patriarchal values and social norms is unhelpful for promoting more rational family planning and reproductive behavior.

Traditions of civil society are fairly weak. Its basic elements emerged in the late 1980s and early 1990s, but for political reasons have failed to develop and remain weak. Since 2004, 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. Due to their limited personnel and addiction to foreign grants, NGOs failed to root themselves firmly in society during the more or less “favorable” period from the mid-1990s until 2003. In some instances, NGOs worked for themselves: they served the interests of a rather small and unchanging group of individuals, often comprised of former Komsomol and communist party hacks who still may represent Soviet-style political culture. The NGO sector has turned into a kind of job market for elite groups of administrators and social entrepreneurs, thus failing to overcome distrust in society.

A traditional institution, such as the “mahalla” with its family, kin, neighbor and other informal connections, could have potentially become a basis for civil society, but was instead integrated into the state apparatus and crafted into an instrument of surveillance and social and political control over the population.

The intelligentsia, which could potentially spark civil society activities, leads a marginal existence as a consequence of the dire economic situation and the compulsion to conformism. It has turned into a kind of the new poor, after having belonged to the Soviet-style middle class.

There are deep divisions within society and the political elite along local, regional and social lines. The two axes of polarization are found between the center and the periphery as well as between the extremely rich and the desperately poor. 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 only Islam or its theological interpretations, but also the country’s acute social, economic and political problems. For instance, the socio-religious network known as Akromiya combines an allegiance to Islam with a commitment to address the issues of social justice and poverty. Akromiya quickly acquired popularity in Andijan thanks to their charity activities and demonstration of social solidarity. This popularity among the population contrasted sharply with the corruption of the state administration and its disregard of the people’ concerns and grievances; this was the reason for a brutal crackdown by the authorities.

The government has suppressed, but not resolved, 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 has increased as a reaction to the abuses of ethnic minority rights in southern Kyrgyzstan. To reduce this risk, intensive cooperation between Uzbekistan, Kyrgyzstan and Tajikistan would be required. Uzbekistan
itself needs to revisit the issue of minority rights, especially with regard the situation in Karakalpakstan, where social grievances among the local population may take the form of a revolt against the Uzbek domination of the state and local resources.

II. Management Performance

14 | Steering Capability

The political leadership claims to pursue long-term aims, but these are replaced regularly by short-term interests of political bargaining and office-seeking. If long-term goals are pursued, they do not correspond to the goals of democracy and a market economy. The political leadership introduced the slogan “Uzbekistan is a country of the great future” in 1992, which was nothing more than an empty ideological cliché than any demonstration of strategic thinking. It aimed rather to fill the ideological vacuum left by state socialism and its concomitant promise of a bright communist future.

Another set of quasi-strategies have been government attempts to concentrate each year on one particular program goal or social priority. These one-year programs, such as the “Year of Small Business and Enterprise” (2011), the “Year of the Harmoniously Developed Generation” (2010), the “Year of Rural Improvement and Development” and the “Year of Youth” (2008), the “Year of Social Protection” (2007), the “Year of Charity and Medical Workers” (2006), the “Year of Health” (2005) and the “Year of Kindness and Mercy” (2004), though accompanied by some legislative initiatives and peremptory activities, have largely been propagandist campaigns aimed to demonstrate the government care of social issues and concerns. In reality, each of these programs were discontinued at the end of the designated year and quickly forgotten.

In spite of administrative and mobilization capacity, the government has failed to demonstrate persistence in reform implementation and does not follow up on reforms. In fact, the president only imitates reform activity (mainly for propagandist and PR purposes), but is deeply committed to the preservation of the status quo rather than to social, economic and institutional change.

Members of the government are more preoccupied with shorter term priorities, as well as with personal enrichment and surrounding themselves with loyal supporters, than with the situation in their country or continuity in = reform policy. Clearly, members of the government are also afraid of voicing new ideas or taking the
initiative to implement purported reforms, as all key questions are decided by the president alone, whose governance style is based on maintaining tight control over everything.

The government tries to stimulate reforms, but fails to implement most of them. Uzbekistan is an over-centralized state that features a command economy and some elements of a market economy. The government has the capacity to concentrate huge administrative, financial and human resources for pursuing one-off priorities. One example is the implementation of a backbone cable network across the country, which facilitated the digitization of telephone connections throughout practically the entire region. Another successful venture was Uzbekistan’s construction of a railroad in northern Afghanistan which was done within a short period of time.

But the government has been much less successful in pursuing structural and institutional changes that require longer-term efforts and consistent and complex policies. One example is the failure to create functional stock and commodity exchanges. The respective agencies responsible for these exchanges were created under the State Property Committee but they were unable to overcome deep structural problems that prevent the development of stock and commodity markets. The key structural problem here is the lack of economic freedom and the free movement of capital and commodities.

If it were to decide to go ahead with reforms, the government is unlikely to encounter any significant opposition from society, which, as a legacy of the Soviet period and suppression of civil society in the post-Soviet period, has grown accustomed to various top-down political and economic reform initiatives coming exclusively from the political leadership and vanishing quickly only to be replaced with a new initiative.

The problem with policy learning is that there is an insufficient number of independent think tanks and research institutions that would supply the government with competitive ideas and professional analyses. Those few thinks tanks that work with the government – such as the Institute for Effective Economic Policy or the Centre for Economic Research – are too humble to voice provocative views and critical analysis. The country’s top leadership may highly value experts who are talented in implementing the endorsed policies, but it has never held high regard for independent and critical policy thinking. The political leadership in Uzbekistan is portrayed as faultless; for this reason, monitoring and evaluation practices are not encouraged as they may identify mistakes and faults in existing policies and thereby undermine the leadership’s authority. To an equal extent, the political leadership dismisses the knowledge exchange with international institutions. The expertise
provided by the international experts is accepted only in very specific areas, and they are allowed to work on improving primarily technical aspects of functioning institutions. Thus, strategic thinking is the exclusive prerogative of the existing president and his narrow circle of advisers.

15 | Resource Efficiency

The government wastes state resources (human, financial and organizational). Most resources are controlled by patron-client networks and serve their interests rather than those of society. The government has created an economy subservient to power. Unless they are supported by patron-client networks, newcomers cannot access the country’s resources, which are controlled by power and patronage groups within the government. This severely reduces the development capacity of the economic system. The government pursues a “constant pie orientation” policy in which 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. One example of these counter-productive arrangements is the hidden opposition of those groups who control the export of raw cotton along with the government strategy of developing the domestic textile and garment industries. The initial plans to direct cotton through the local commodity exchange to make it available for local textile producers, including foreign investors, have failed to realize this in practice.

The government often fails to coordinate between conflicting objectives or interests. Different parts of the government tend to compete among each other, and some policies have counter-productive effects on other policies. A high degree of weakness in conflict regulation characterizes the Karimov government. In his interaction with the elites, the president is both a player and a referee. His power is vast, but it is limited by the need to maneuver between influencing strategic groups and maintaining a balance between them, as a peculiar kind of check and balance system he nurtured within the executive branch of government, exclusively for the sake of maintaining his own grip on power. The president’s divide and conquer philosophy prevents the government from achieving better coordination in pursuing policies and concentrating on longer-term priorities that require a complex approach. The president cannot claim that he has a united team; his team is a deeply divided group of officeholders, and this is a natural outcome of his governance style.

The environment of permanent conflict and rivalry characterizing the Uzbek government provides opportunities for corrupt gain. These corrupt solutions of conflicts 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 towards the hyper-centralization of the state.
Government members are unwilling to defer conflict resolution to other institutions because they can monopolize income through conflict solutions. Moreover, leaving conflict resolution to an independent authority could undermine the government’s power.

Many state offices are controlled by private interest groups. Reform is impeded by private interests, rendering most integrity mechanisms nonexistent or ineffective. The government does not take any serious measures to curb the country’s widespread and rampant corruption at the institutional level, apart from periodic cadre purges that only replace one office abuser with another. 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 president, used for intimidating the non-compliant. Prosecutors and courts consider only corruption charges when accusations of corruption – following the leadership’s instructions – are brought against officials who have fallen out of favor with the head of state and forced to retire, or independent journalists and human rights activists for allegedly extorting bribes.

16 | Consensus-Building

There are no major political actors among the political leadership and elite groups who are eager to build a democracy with a market economy. Despite dubious declarations of allegiance to democratic development, there is a wide consensus on a market economy as a strategic goal. The understanding of how the market economy is to be built varies across government offices and society.

The notion that there is a dichotomy within the ruling elite between members of the corrupt “old guard” and a small group of young “reform-minded” politicians is only partly true. The younger reform-minded faction is too timid and makes sure its view is carefully masked. 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. Under the current political leadership, the 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 only to a limited extent, with a major focus on adjusting resource distribution so as to increase their own private share.

However, the nascent business class will definitely be interested in a more stable and transparent institutional system, with much clearer rules of the game. It may
take advantage of the period of political thaw that is inevitable as soon as the President Karimov is gone, to promote a new generation of politicians who will be determined to change the political and governance system more substantially.

Reforms are being and will be encountered with a vehement resistance by two groups in the population: the existing class of corrupt officeholders tied to their clientelistic networks, and those intellectuals of a patriarchal-nationalist persuasion who oppose any changes that would liberalize society and affect its value base. The influence of these two groups can be limited by freedom of press and a results-oriented policy to be implemented by the reformist government, should the reformers be given a carte blanche to work out and realize their program.

The political leadership does not reduce existing divisions or prevent cleavage-based conflicts from escalating. The government pursues policies that either avoid or suppress conflicts. A move to rational conflict management and resolution is not on the agenda.

The political leadership suppresses and excludes civil society actors from the political process. Since 2005, the political leadership has energetically sought to close down most autonomous NGOs and replace them with GONGOs (government-organized NGOs). The vast majority of NGOs were compelled to join the government controlled National Association of NGOs; the rest were coercively shut down or re-registered as “normal” economic enterprises. Grants issued from foreign donors have been severely restricted and reduced to nearly zero. This has resulted in a situation in which 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. The political leadership manipulates memories of historical injustices during the Russian empire and Soviet rule as a means to inspire nationalist sentiments and as a weapon against those political opponents and groups of population who may be associated with Russian influence. President Karimov tries to harness nationalism to legitimize his own authoritarian rule and present himself as the proponent and embodiment of Uzbek nationhood.

17 | International Cooperation

Although the political leadership cooperates with individual bilateral or multilateral international donors, it does not use international aid to improve its policies. There is no viable long-term development strategy. Throughout his 21-year reign,
President Karimov has not made any genuine effort to integrate the country 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, the government’s isolationist and autarchic tendencies have intensified. 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. The government forces the international agencies to admit compromises with the regime in assessing the situation in the country. For instance, some of these agencies were forced to distort in their documents the situation with forced child labor, the rights of farmers, economic growth and so on. If they do not accept such compromises, the agencies in question are either expelled from the country, as was the case for UNHCR in 2006, or their country staff is treated badly, as happened to UNICEF in 2010 when it changed its position on the issue of forced child labor.

In all other instances, the government regards cooperation as undesirable and fraught with risks to the political status quo, sometimes going so far as to accuse outside support as a form of “democratic fundamentalism” that interferes in internal affairs. Criticism from international organizations results only in the government narrowing the scope of such an organization’s operations in Uzbekistan.

The government acts unpredictably, without regard for the international community. Cooperating with the state entails major risks. The government has proven that it is neither credible nor reliable as an 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. The government has only pretended to fulfill such obligations. It frequently makes radical changes in its foreign policy partners and priorities, depending on the situation at hand.

The political leadership cooperates selectively or sporadically with individual neighboring states and is reluctant 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. Uzbekistan’s government continues to demonstrate an apparent lack of commitment to sustainable regional cooperation, which can be seen, for example, in its see-saw policy towards membership in the Eurasian Economic Community. In 2008, Uzbekistan withdrew from this regional organization for the last time.

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. There are landmines on the border between Uzbekistan and Tajikistan. There is no air connection between Uzbekistan and Tajikistan. A visa requirement was introduced in 2000 for Turkmenistan and Tajikistan for travelling citizens. 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 impeded by the restrictions imposed by the Uzbek government upon the contacts of Uzbek citizens with the rest of the world. The situation is aggravated by periodic hate campaigns against neighboring countries, especially Tajikistan.

The tensions between Uzbekistan and Tajikistan mounted in 2010 to an unprecedented level. For the last few years, Uzbekistan has been increasingly hostile to the Tajikistan plans to complete the construction of the Roghun hydroelectric power station, which was started in the Soviet period. The Uzbek government’s main argument against this project is that it is an ecological disaster risk and could lead to a water supply shortage for Uzbekistani agriculture. But the Uzbek leadership ignores the reasons why Tajikistan is so determined to achieve its energy independence. For years, Uzbekistan has used its privilege as an exclusive gas exporter to neighboring countries, especially Kyrgyzstan and Tajikistan, as an instrument of political pressure, constantly cutting this supply off and often leaving the population of these two countries without heating during the winter period. To prevent the construction of the Roghun power station, Uzbekistan has imposed a transport blockade by impounding thousands of rail carriages with supply materials for the construction and other economic needs of Tajikistan. The Uzbek government has tried to mobilize international public opinion in order to isolate Tajikistan and condemn its construction plans. This conflict remains heated because the Uzbek government dismisses the very idea of a dialogue with Tajikistan on political, diplomatic and expert levels.

Although Uzbekistan’s efforts to alleviate the refugee crisis in southern Kyrgyzstan in June 2010 have been praised by the international community, it is again notable that Uzbekistan has been reluctant thus far to cooperate with all regional parties, for instance, with Kazakhstan, to prevent violence and provide humanitarian assistance. The Uzbek leadership’s attitude to Kazakhstan remained affected by the personal rivalry between Presidents Karimov and Nazarbayev. This was probably the reason why Karimov declined to take part in the OSCE summit held in December 2010 in Astana.
Strategic Outlook

Uzbekistan continues to suffer from serious social and economic difficulties, as the majority of its population lives below or near the poverty line. Small- and medium-sized businesses face serious administrative pressure and suffer from rampant corruption. The absence of any positive change or clear prospects for improvement have fostered a sense of hopelessness and despair throughout Uzbekistani society, which often provokes discontent and localized social protests. The government itself is the primary obstacle and barrier to the country’s political and economic transformation.

Uzbekistan illustrates the fact that socioeconomic difficulties do not automatically lead to widespread social protests demanding democratization and economic liberalization. Regardless of their most resolute rhetoric, Uzbek opposition groups have proven ineffective at facilitating either of these goals. The capacity to launch peaceful change from within Uzbekistani society is subject to significant constraints. Uzbekistan therefore holds the greatest potential for a volatile and violent political transition in the CIS region. The combination of an autocratic government, incapable 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.

Despite widespread fears, so-called Islamism does not have much influence in Uzbekistani society. Following years of Soviet secularization, Uzbekistani society appears unwilling to embrace the ideology of Islamic purism. The country has no integrated network of Islamic groups that would be able to formulate political and economic programs for all strata of the population. The Islamists will not be able to seize power in the near future.

Given these dire circumstances, the international community should start paving the way for peaceful change. Peaceful strategies should include:

- providing greater support to young people who are eager to acquire education in Western colleges and universities. In spite of the ongoing cuts in public funds and hikes of tuition fees in Britain, academic exchange programs and fellowships should be expanded;

- these programs should be complemented with post-graduate programs to provide young Uzbeks with opportunities to attend global academic and policy discussion forums and to publish the results of their own research. The purpose of these programs is to encourage the development of critical thinking and analysis among young Uzbeks and prepare them to take the lead in discussing pressing issues of national development;
• providing more political, financial, technical and organizational support for most capable groups and individuals representing the civil society; fostering among them policy thinking and critical analysis on specific issues of development; avoiding dealing with governmentally-organized NGOs (GONGOs) that are fake institutions manipulated by the Uzbek government for political purposes;

• supporting the existing and newly emerging mass media and social media networks that report and broadcast on Uzbekistan and promote democratic values and consciousness among the Uzbek population;

• while supporting engagement with the existing government of Uzbekistan, refuse to compromise on the truth, that is, the distortion of the reality in appraisal documents released by international agencies and donors working in Uzbekistan (one example of such compromise is the World Bank’s Appraisal Document on the Rural Enterprise Support Project, which has been criticized by civil society groups for distorting the picture of the current status of reforms in Uzbekistan’s agriculture sector);

• prioritizing international technical assistance to Uzbekistan for a program promoting the rule of law. This program should not be limited to the preparation of new draft laws; it should also concentrate on the implementation of already existing laws; making conditional the allocation of loans and investments, especially along such channels as the IFIs to progress in establishing the rule of law; engaging with the local community of independent lawyers, not through the government-controlled Chamber of Advocates, but via regional and international networks and professional associations;

• supporting international evidence-based campaigns that target specific issues of human rights in Uzbekistan; one such campaign is targeting forced child labor; the campaign pressuring the Uzbekistan cotton industry may succeed not only in eradicating this practice, inherited by Uzbekistan from the Soviet past, but may also encourage Uzbekistan to reform its farming sector;

• making sure that contacts with and technical assistance to the military, police forces and other security services are not used by the Uzbek ruling regime to violently crack down on protest movements, as happened in Andijan in 2005.