CENTRAL ASIA AND THE CAUCASUS

Journal of Social and Political Studies

5(35)
2005

CA&CC Press
SWEDEN

FOUNDED AND PUBLISHED BY

INSTITUTE
FOR CENTRAL ASIAN AND
CAUCASIAN STUDIES
Registration number: 620720-0459
*State Administration for
Patents and Registration of Sweden*

INSTITUTE OF
STRATEGIC STUDIES OF
THE CAUCASUS
Registration number: M-770
*Ministry of Justice of
Azerbaijan Republic*

PUBLISHING HOUSE
CA&CC Press. SWEDEN
Registration number: 969713-2695

Journal registration number: 23 614
State Administration for Patents and Registration of Sweden

Editorial Council

EDITORIAL BOARD

The materials that appear in the journal do not necessarily reflect the Editorial Board and the Editors' opinion

Editorial Office:

CENTRAL ASIA AND THE CAUCASUS
Hubertusstigen 9. 97455 Luleå
SWEDEN

WEB ADDRESS:
http://www.ca-c.org

CENTRAL ASIA AND THE CAUCASUS

Journal of Social and Political Studies

No. 5(35), 2005

IN THIS ISSUE:

POLITICAL PROCESS TODAY

REGIONAL POLITICS

FOR YOUR INFORMATION

The Special Feature section in the next issue will discuss:

Central Asia and the Caucasus

- Border Delimitation and Separatism
- What Makes the Parliamentary and Presidential Elections in Central Asia and the Caucasus Specific
- Political and Economic Development Trends

REGIONAL ECONOMIES

POSITIONED BETWEEN CHINA AND RUSSIA: THE CENTRAL ASIAN COUNTRIES FIND THEIR OWN APPROACH TO PRIVATIZATION

Veniamin GINSBURG

Ph.D. (Technical Sciences), researcher at the Institute of Eastern Europe (Munich, Germany)

Manuella TROSCHKE

D.Sc. (Econ.), researcher at the Institute of Eastern Europe (Munich, Germany)

Even in developed Western states, economic transformation is a complex and usually rather painful process. What is more, complete economic transformation during transition to the market is accompanied by extremely strong social upheavals. The fifteen-year practice of reforms in the post-Soviet countries has demonstrated so many diverse nuances that the need for a carefully elaborated individual approach to each problem in each republic and continuous adjustment of their transition strategies and tactics is crystal clear.

One of the most difficult and controversial questions is the degree of the state's participation in enterprise and economic development management during and after privatization. Debates are still going on between the supporters of the conceptions of a "strong" and a "weak" state. In different countries, both conceptions demonstrate several strong and weak aspects and the arguments of the participants in the debate are becoming broader, but there are still doubts about the specific benefit to be derived from implementing their proposals. However, these countries have already accumulated a fair amount of experience in economic transformation, the study and elucidation of which can promote a more rational solution to the problem as a whole.

Work carried out within the framework of the scientific research project "Zwischen Russland und China: Reformmodelle und Management in Zentralasien," financed by the Volkswagenstiftung.

The Issue in Brief

During recent years, a large number of articles by leading Western and Russian experts has been published criticizing the organization of the reforms in Russia. They reflect the approaches of several Western specialists and financial institutions toward the economic changes in the CIS countries and China, where intensive economic progress is obvious. Some leading apologists of the Western economy, as well as Russian researchers (J. Stiglitz, J. Galbraith, D. Ellerman, P. Reddaway, I. Minervin, R. Grinberg, and others) conducted a comprehensive analysis of the mistakes made and their consequences. Most of the conclusions are similar: the Washington Consensus doctrine and shock therapy did not justify themselves. Artificially accelerated reforms, which began without the proper preparations and a precisely adhered-to sequence of measures and did not take into account the economic and social features of the countries undergoing reform, have led to the development of perfunctory pseudo-market institutions, an economic downslide, the formation of oligarchic structures, a crime-prone situation, and serious social consequences.[1]

This is in spite of the already existing example of successful reform of the Chinese economy. This country, which had less favorable starting conditions than Russia, was able to bring about positive economic changes and achieve a significant rise in the standard of living within a relatively short time without major social upheavals. According to most researchers, one of the main reasons for China's success is the leadership's unique approach to the role of the state while carrying out the reforms and forming market relations, as well as to the general development of the economy. Here it is appropriate to remind our readers that the Washington Consensus doctrine actively promulgated by the International Monetary Fund and basically accepted by official Moscow is based on rejection of the state's active role in the development of the economy and on a severe cutback in its functions.[2] As a result, several of the countries which chose this path lost control not only over the economic, but also over the political situation. Beijing's strategy, however, was implemented under conditions of a relatively closed economy and within the framework of long-term state programs, which made it possible to maintain strict control over the movement of capital and the use of resources, determine and regulate the priority directions of development in a timely fashion, and slow down market spontaneity by means of stable functioning of the state sector.[3] Chinese specialists themselves conclude that the positive features of the reforms (in counterbalance to the Russian doctrines) consisted of the following:[4]

- Exerting efforts to create something new without destroying the old. Market entities were not formed by destroying state production structures, but by filling in the missing links with new commercial structures. Reform was directed from the very beginning toward decreas-

[1] See: J. Stiglitz, *Quis custodiet ipsos custodes? Failures of Corporate Management in Transforming to the Market*, Paper presented to World Bank Conference on Economic Development, Paris, June 1999; J.K. Galbraith, "The Crisis of Globalization," *Dissent*, Vol. 46, No. 3D, Summer 1999; D. Ellerman, "Vauchernaia privatizatsiia kak instrument "kholodnoi voiny," (Voucher Privatization as the Cold War by Other Means), *Voprosy ekonomiki*, No. 8, 1999; P. Reddaway, "Korni i posledstviia rossiiskogo krizisa," *Problemy teorii i praktiki upravleniia*, No.2, 1999; I.G. Minervin, "Zarubezhnye issledovateli o putiakh transformatsii rossiiskoi ekonomiki: mnogoobrazie podkhodov, skhodstvo vyvodov (obzor)," *Rossiia i sovremenniy mir*, No. 4, 2001; R.S. Grinberg, "Rezultaty ekonomicheskikh reform v postsotsialisticheskikh stranakh," *Problemy teorii i praktiki upravleniia*, No. 3, 2003 [http://rusref.nm.ru/indexpub116.htm].

[2] See: J. Stiglitz, *More Instruments and Broader Goals: Moving toward the Post-Washington Consensus*, WIDER Annual Lectures 2, NU/WIDER, Helsinki, 1998.

[3] See: "Ekonomicheskaia politika izmeriaetsia rezultatami," (Economic Policy is Measured by Results). Interview with Chairman of ECAAR-USA James Galbraith," *Problemy teorii i praktiki upravleniia*, No. 5, 1999 [http://rusref.nm.ru/indexpubgelbreit.htm].

[4] See: H. Dinggui, "Kitai: podkhody i osobennosti ekonomicheskikh preobrazovanii," *Problemy teorii i praktiki upravleniia*, No. 6, 2000 [http://rusref.nm.ru/indexpubgelbreit.htm].

ing the economy's short supplies. Internal reserves were mobilized for this and the state actively attracted foreign investments.

- Stimulating economic initiative at the micro level, with strict government control of the macroeconomic situation, as well as timely adoption of measures to prevent its imbalance.
- Ensuring primary orientation toward meeting the population's demands for food and consumer goods, which ensured universal support of the reforms.

The International Monetary Fund was called upon to play an active role in rendering financial aid to countries undergoing reform. But at that time the granting of privileged loans hinged on these countries executing the Washington Consensus doctrine. Far from all the post-Soviet states followed the example of the Russian Federation and went the path recommended by the IMF. Several of them agreed to only partial introduction of the suggested measures (in exchange for loans), and some, for example, Turkmenistan and Uzbekistan, did not accept the conditions of the Fund and refused to cooperate with it at all. When analyzing the results of these reforms, James Stiglitz, for example, noted in particular that the countries criticized earlier for the slow pace and incompleteness of their reforms, such as Uzbekistan and Slovenia, were able to avoid serious problems and now look much better than the countries where the recommended models were adopted, such as the Czech Republic.[5]

The scope of the reforms in the CIS countries and Eastern Europe has no precedents. It is obvious that there is no clear and direct path, each of these states is undergoing economic and social upheavals to one extent or another. In this situation, the root of the problem is not artificial strengthening or weakening of the state's economic policy in an attempt to reach the end goal as quickly as possible, but ensuring harmonious coexistence, development of political and economic structures, and optimal distribution of spheres of influence, obligations, and freedoms at different stages of the reforms. In-depth research of the reform models being implemented make it possible to better comprehend the essence of the processes going on and alleviate their negative consequences.

The Central Asian countries are particularly interesting in this respect. At the beginning of perestroika, they all had essentially the same starting conditions, but as time went on their paths significantly diverged: the reforms in each country have a different dose of the special features of both the Russian and the Chinese strategies.

1. Conceptions of the Reforms and Economic Development

There are significant differences in the data of the international financial and research organizations regarding the degree of advance of the reforms in the Central Asian countries and their economies. Therefore, to form an overall picture, we decided to use the data of the EBRD as the most complete and convenient for comparison. According to the bank's indicator assessment, by the end of 1994, the comprehensive final indices of market infrastructure development in Kazakhstan, Tajikistan, and Kyrgyzstan were essentially identical. Uzbekistan stood a little higher, achieving high rates of reform in almost every area from the very beginning, while the Turkmenistan government carried out a very modest series of measures aimed at partial privatization of the housing fund, public service enterprises, and trade.

Further, the picture begins to significantly change. State power in all the republics is building up its influence, but to different degrees. The development of market relations is stabilizing, in several

[5] See: J. Stiglitz, *Quis custodiet ipsos custodes? Failures of Corporate Management in Transforming to the Market.*

cases even decreasing, and very positive aspects of active interference of the "strong" state in the leading branches of the economy and its diversification are being observed. The republics of the region mobilized their own resources and attracted large foreign investments for developing priority branches, and since 1995, the GDP has been growing. It is only decreasing in Turkmenistan, but this does not have anything to do with the reforms; due to price differences, Russia stopped buying Turkmen gas and cut back its transit. Later sales normalized, enterprises of the oil and gas sector diversified, the GDP increased, and by 2002, the country reached the pre-reform indices at the same time as almost universally reformed Kazakhstan, after leaving Kyrgyzstan far behind (see Figure). Despite all their similarities, the economic reforms in each country have significant special features.

As for Kazakhstan (the model of a "weak" state), it carried out its reforms at a rapid rate. By 2001, most small and medium business enterprises had been privatized, as well as a significant number of large industrial and agricultural enterprises. In 2002, the private sector's share of production in the industrial sphere was higher than 83% of the total production volume, and personal holdings and farmers produced more than 77% of the gross agricultural product, while the state's share dropped to 1.3% in construction and to 0.4% in trade.[6] Banking reform was also carried out. Between 1997 and 2000, the banking sector's own capital (in currency equivalent) increased more than two-fold, and total assets 1.6-fold.[7] As of 1 October, 2004, 35 banks were functioning in the republic, the total assets of which increased by 34.4% during the first 9 months of this year alone.[8] The percentage of investments in basic capital increased from 8.2% in 1999 to 28-31% in subsequent years. The main domestic and foreign investments go to the oil production and refining branches. According to the data of the Kazakh Institute of Economic Research (IER), the average annual increase in oil production reached 5.7 million tons, and the petroleum factor ensures approximately 47% of the annual increase in the GDP. So the economic upswing is still largely being maintained by means of the production and refining of rich supplies of minerals.

As for Kyrgyzstan (the model of a "weak" state), this country, which does not have large supplies of minerals or a developed production branch, was in a difficult position. So the republic immediately agreed to essentially all the conditions prescribed by the International Monetary Fund and reformed its economy so intensively that as early as 1995 it had surpassed all of its neighbors in terms of development level of market relations. But this was not followed by a stable increase in the GDP and the foreign trade balance remains negative. Large amounts of aid from international financial structures did not help either: between 1992 and 1994, the country received approximately 258 million dollars in reform support alone,[9] while the total amount, according to the reports of the financial organizations themselves, topped 1.5 billion dollars by the beginning of 2003. When calculated per capita, this is more than four-fold higher than the aid allotted to "disobedient" Turkmenistan and Uzbekistan.[10] But the social discontent, which prompted a forced change in government, and the consistently negative foreign trade balance are very serious signs of an economic downslide, so it is still too early to talk about the efficiency of the reforms (despite the many years market economy institutions have been in existence).

The economic situation in Turkmenistan (the model of a "strong" state) is giving rise to a host of contradictory opinions due to the country's information vacuum. The official statistics show the presence of functioning market institutions and high development rates of essentially all the branches

[6] *Statisticheskiy ezhegodnik Kazakhstana*, Statistics Agency of the Republic of Kazakhstan, Almaty, 2003.

[7] See: N. Ramazanov, "Banki Kazakhstana. Itogi 2000 goda," *Delovaia nedelia* (Kazakhstan), No. 16, 2001.

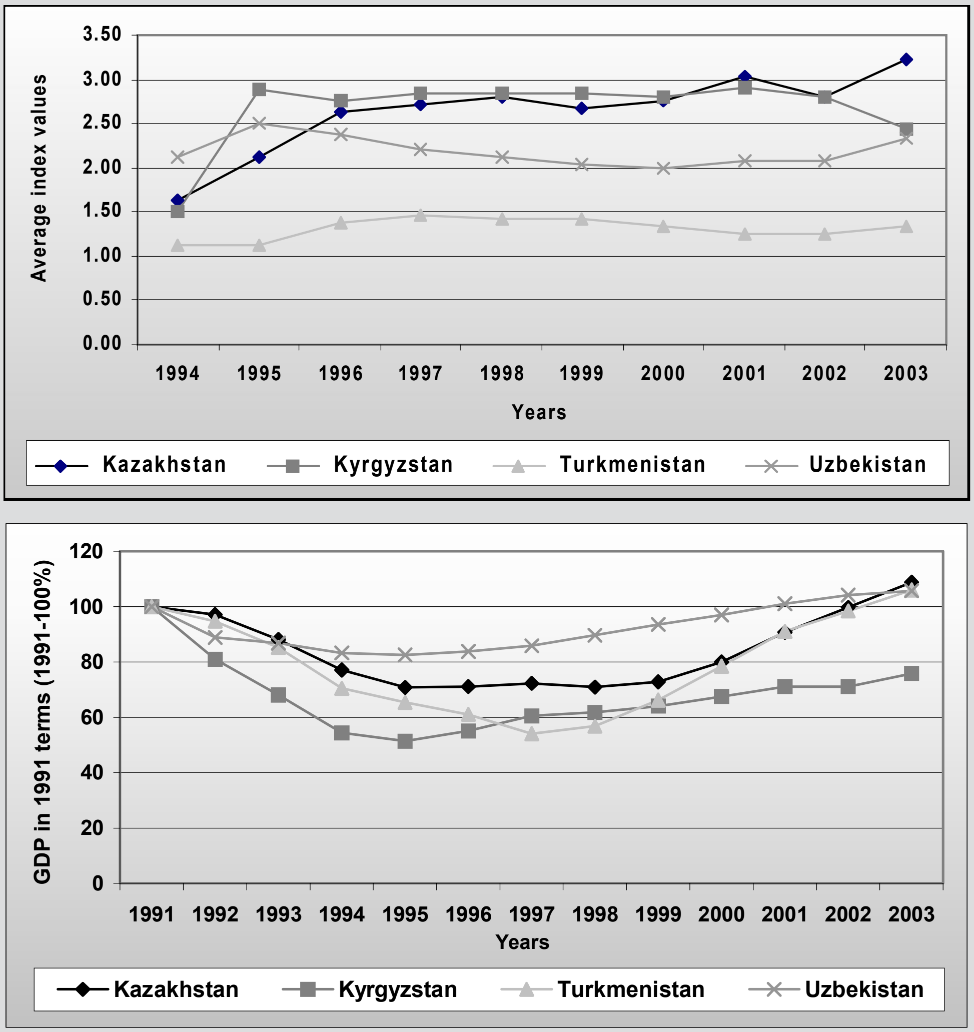
[8] See: N. Ramazanov, "Izderzhki kreditnogo buma," *Delovaia nedelia,* No. 43 (621), 2004.

[9] See: *Fakty govoriat o drugom*, Kyrgyz National Agency Khabar-Slovo Kyrgyzstana, 21 August, 2003.

[10] See: M.-C. von Gumpenberg, U. Steinbach, *Zentralasien. Geschichte-Politik-Wirtschaft. Ein Lexikon*, C.H. Beck, München, 2004.

Figure

Comparison of the Dynamics of Change in Average Indices of Market Infrastructure Development and in the GDP of Central Asian Countries according to the EBRD



Sources: *EBRD Transition Report 2000; EBRD Transition Report 2004.*

of the national economy, noting certain failures only when they have already become internationally known. It is very likely that the indices of recent years (the rise in the GDP of more than 20% a year) were in fact somewhat higher than in reality. But the indirect data available confirm the high rates of economic development: in the past 3-4 years, export has increased more than two-fold. Gas, oil, and petroleum products account for more than 80% of the deliveries abroad[11] (mainly natural gas and petroleum refining products), the production of which is controlled by the government and is being intensively developed. The foreign trade balance, an index which is extremely difficult to distort in any way, is positive and steadily rising.

Uzbekistan (the model of a "strong" state) immediately began developing market economy institutions at a high rate. Within the framework of legal reform, the functions of the state administration bodies were significantly changed, a corresponding basis for developing the banking sector for small businesses was created, the tax system was reformed, and the social security system became more targeted. But if we take a closer look, the heavy hand of the state can be clearly seen, the economic policy of which contradicts the classic principles for developing market relations, but nevertheless largely promotes overall economic growth.

Primarily a course was steered toward retaining the state's presence and regulation in all the most important branches of the economy. Budget revenues amount to 35-45% of the GDP, and the overwhelming volume of export-import transactions has been centralized.[12] Immediately following the liberalization of prices, a distributive-regulatory system was introduced on several types of foodstuffs; most large and medium enterprises have been turned into joint-stock companies to where the state still actually owns them; strict regulation of foreign trade has been preserved; the state established prices for cotton and grain through a state order system and also reserved itself the right to distribute loans and regulate hard currency.[13] Budget funds were used to reinforce the production base, raise the production of oil and gas, provide the country with its own grain and energy resources, and develop the production of several commodities which used to be imported. This led to economic growth, and since 1998 the foreign trade balance has been positive.

Dynamics of the GDP as an Indicator of the Development Level of the Market and the State's Strength?

At the current stage, it is still rather difficult to determine which state has profited (or is profiting) and whose strategy is the most correct. Particularly since the generally accepted aggregate indices of the rate and the states' level of economic development can far from always serve as an objective characteristic of the efficacy of the reform processes. Other factors also have an immense influence especially on the development of the economies of relatively small countries oriented toward raw materials and with rich supplies of natural resources. The fluctuation amplitude of their economic indices depends to a much greater extent on the production, refining, and raw material sales volumes than on the level of development of market relations and the efficient operation of industrial enterprises.

In turn, the objectivity of a comparison of the development levels of market relations in these countries is also relative. One of the reasons is legislative and terminological differences, which are not always taken into account when making comparisons. In several CIS countries, for example, joint-stock companies legislatively belong to structures with private forms of property (regardless of the state's share in them). In this way, large state enterprises and entire branches are theoretically priva-

---

[11] See: "Turkmenistan's Foreign Trade Turnover for January-July Amounted to 3 Billion 324 Million Dollars," Internet newspaper *Turkmenistan.ru* [http://www.Turkmenistan.ru], 22 September, 2003.

[12] See: S. Chepel, "Ekonomicheskiy rost za gody nezavisimosti: faktory, problemy i perspektivy," *Ekonomicheskoe obozrenie,* Iss. 6, 2003 [http://www.review.uz/archive/article.asp?y=2005&m=59&id=149].

[13] Ibidem.

tized, while remaining as before essentially in the state's full ownership, with the ministries and departments fulfilling the functions of surrogate holding structures. So today, it is important not so much to lament over the mistakes made and over the insufficiently universal competence and applicability of the economic theories, as to study and generalize the experience accumulated in this sphere in order to prevent more mistakes in the future. The sooner this happens and the greater the number of factors taken into account while planning further reform, the greater the chance of preventing future errors and difficulties. In this respect, we decided to concentrate our attention on an in-depth analysis of one of the most important aspects, on the special features of privatization and development of corporate management in different reform strategies.

2. Formation of a Multifaceted Economy in Kazakhstan and Uzbekistan

The strategies of these two regional countries based on different approaches were chosen for study. The study was carried out with the participation of specialists from the Institute of Economic Research of the Kazakhstan Ministry of Economics and Budget Planning and the Scientific Research Institute for Intensifying Market Reforms under the State Property Committee of Uzbekistan. During the studies in 2004, a survey of the managers of several enterprises was also carried out, the opinion of whom made it possible to gain a fuller picture of the privatization process and current corporate management system.[14]

2.1. Privatization and Development of Corporate Management in Kazakhstan

Among the Central Asian countries, this republic has adopted a reform strategy which is closest to the Russian. Admittedly, it is being carried out in a softer way than in the Russian Federation. At the initial stage (1991-1992), attention was concentrated on partial privatization in trade, public services, and agriculture. During this time, more than 6,500 enterprises shifted to the nongovernmental sector of the economy: about 20% to private individuals, and the rest to work collectives (in forms of collective property or joint-stock companies).

The goal of the second stage (1993-1995) was to create conditions for a transition to a market economy based on the personification of property rights by means of gratuitous transfer of facilities belonging to the state. There were plans to further privatize trade, public utility, and public service enterprises by means of auctions and tenders; "mass privatization" of medium enterprises (with staffs of between 200 and 5,000 people); privatization according to individual projects; and privatization of state agricultural enterprises (collective farms and state farms).

Mass privatization presumed realizing citizen rights to a share in state property. The republic's citizens received investment coupons on a free basis which, in contrast to the Russian vouchers, could not be passed on to anyone or sold. Shares in special private investment privatized funds (IPF) could be bought with the coupons, and these IPFs bought up the shares of state enterprises at auctions.

On the basis of individual projects, enterprises with staffs of more than 5,000 employees and/or of special state significance (about 170 facilities) were privatized, mainly the extraction industry and

[14] The information presented further in the text without reference to the sources was provided by the indicated institutions, obtained on the basis of the survey, or is the result of the author's own calculations and observations.

natural monopolies. Facilities were sold on a chargeable basis. There were no general conditions for distributing shares and sales; international tenders and contracts were to be carried out. The determining factor was the investor's consent to settle the debts of these enterprises and attract investments for their further development.

At the third stage (1996-1998), privatization was carried out of large enterprises of the leading production branches and their subdivisions, the state's share in several corporate structures, enterprises of the social sphere, and the property of bankrupt enterprises (at auctions).

The following programs began in 1999: transfer of the right to own and use the state's sets of shares to branch ministries and departments; division of state property into republic-level and municipal for the purpose of increasing the income of local budgets and decentralizing investment policy; and attracting capital by selling state property to investors who assumed obligations to carry out relatively long-term investment and/or social plans.

At present, the privatization process has essentially been completed, the nongovernmental sector accounts for more than 85% of investments, it produces more than 80% of industrial production,[15] and government policy is mainly aimed at creating conditions for the efficient use of state property.

Privatization Problems

At the first two stages, a wide range of negative consequences was noted: privatization was carried out during a general economic slump, incomprehensively, and in an economic and legal space not prepared for this process. The legislative system was only just developing, and partial liberalization of prices led to a slump in enterprises selling production at hard prices. And during the actual course of privatization, serious mistakes were made.

At first, there was an attempt to artificially correlate three difficult-to-combine processes: observing social justice during the division of state property; privatizing enterprises in order to increase their efficiency under the management of a private businessman; and retaining state control over their activity. This all began with property evaluation and choosing a buyer according to the subjective assessments of the officials authorized to do this, which led to ubiquitous corruption, the sale of enterprises at artificially low prices, mass dismissals, speculation of acquired property, and a production slump.

In the spring of 1992, the government made an attempt to assume stricter control over the process. A decree was issued defining a single privatization mechanism and standard distribution of shares: 25% to the collective, 10% to related enterprises and physical entities (in keeping with the nominal cost and stock market exchange rate), and another 10% to foreign investors, if such were found, but the control set of shares remained with the state. In other words, the state still had control over the enterprise (admittedly, bonuses were replaced with dividends), and the state bodies appointed directors who, aware that their position was only temporary, strove more often for personal gain than for the promising development of production.

Enterprises included in the mass privatization program found themselves in an even more difficult position. They were transformed into joint-stock companies, then up to 10% of their shares were gratuitously transferred to the employees (in the form of privileged shares), and after that no less than 51% of the shares were put up for sale at coupon auctions for the IPFs, that is, the state was to be left with no more than 39%. The sale was of course perfunctory—shares were exchanged for coupons. As a result, privatization turned into the free handout of state property to an impersonal mass of share-

[15] See: *Kazakhstan v tsifrakh 2004, Statisticheskiy sbornik*, Statistics Agency of the Republic of Kazakhstan, Almaty, 2004.

holders incapable either of efficiently managing this property or of investing in the development of the enterprise. Shareholding played the role of an instrument of property distribution, and shares were viewed as a source of dividends from someone else's profit, and not as a means for attracting investments in the enterprise's development. Nor were the IPFs suited to managing production, and the control sets of shares essentially remained in the state's hands.

The Program of Privatization and Restructuring of State Property in the Republic of Kazakhstan for 1996-1998 adopted at the beginning of 1996 was aimed at privatizing the leading enterprises of the electric power, oil and gas, petrochemical, metallurgical, mining, and transportation-communication complexes. There were plans to carry out parallel privatization of the agroindustrial complex and also begin it in health care, national education, science, and culture. An important feature of this privatization stage was the mechanism for transferring facilities to the external management of foreign investors. The country succeeded in attracting foreign capital, but even here there were problems. Several enterprises fell into the hands of non-core companies, which tried to re-profile them, but not always successfully, or the management quality was not always sufficiently high. It was in these enterprises of the leading branches that a drop in production was noted.

Privatization played its part in aggravating the problems of single-profile small towns. Due to the shutdown of the main enterprise, which was a township-forming base, most of the residents were deprived of their means of survival. Municipal housing facilities are often also on the balance of these enterprises, which is leading to a deterioration in the financial situation and to an increase in debts.

Nevertheless, despite several remaining problems still to be resolved by the government bodies, most small and medium, as well as a significant number of large enterprises were given the chance of running themselves independently. And the state is mainly regulating the further development of the production and non-production branches with the aid of market mechanisms.

Corporate Management

The situation is improving with respect to the development of the institutional and functional foundations of the corporate management system, although several problems must still be overcome. The most striking of them are:

- Participation of the banking system in corporate management is normalizing, although banks cannot provide enterprises with loans in the required amounts. One of the reasons is the relatively low level of personal savings in their accounts due to the deep-seated mistrust of banks and the frequently changing legislation. A significant number of residents with average incomes prefer to keep their money at home, and what is more in freely convertible currency, and those with high incomes keep their money abroad. Due to the insufficient transparency of many corporations, people are not buying company shares either.
- Legislation envisages a certain amount of protection of the rights of small shareholders, but observation of these rights often becomes a problem in itself. On the one hand, local specialists and shareholders believe that judges are still not experienced and qualified enough to resolve such problems. And on the other, according to external observations, judges are in a difficult position due to the gaps and contradictions in the legislation.[16]

[16] See: S. Nestor, T. Iasui, M.L. Gi, "Znachenie korporativnogo upravleniia dlia stran Evrazii s perekhodnoi ekonomikoi" [http://www.oecd.org/dataoecd/5/47/1930708.pdf].

- A survey of the employees of food industry enterprises showed that, in most cases, the director makes decisions on the most important problems, while the influence of the board and supervisory council is extremely perfunctory. But the qualifications of the directors often leave much to be desired. According to the respondents, only about 10% of the directors have sufficiently good knowledge about the market situation and are able to expediently analyze it.
- In response to a question on the problems of production growth, all the survey participants noted the shortage of qualified staff and circulating funds, as well as the unavailability of loans. In so doing, the interest rate of banks on investments is 23-25%, as a result of which it is not profitable to take out loans for production development.

At the same time, according to managers, working conditions have significantly improved over the past three years, while the success of an enterprise depends mainly on its own efforts. The responses demonstrate the clear predominance of a feeling of own responsibility and a striving for innovative business, while hopes for government assistance have significantly decreased, as well as for the state's involvement in the enterprise's economic activity. A relatively "weak" state is gradually making such people "strong."

2.2. Privatization and Development of Corporate Management in Uzbekistan

Uzbekistan chose a strategy of strictly controlled gradual reform of property forms (closer to the Chinese strategy). It is based on the idea of parallel development of independent private business and the privatization process. The main goals it envisages are as follows: maximum possible reduction in the production slump caused by the reforms; formation of a property owner capable of acquiring and efficiently using state property; accelerated development of the infrastructure of this business and corporate management; development of competition; and formation of a system of targeted social support of the population.[17] This work was carried out in keeping with the following main principles:

- Parallel to the development of independent private business, controlled gradual privatization was supposed to ensure the systemic and smooth implementation of the reform of property forms, based on programs of overall economic development, and eliminate the arising disproportions in a timely fashion.
- In contrast to Kazakhstan, total rejection of voucher privatization. The reasons: this privatization deprives the property owner of his personal character, that is, does not provide for his active participation in the enterprise's management; the enterprise does not receive additional investments; there is a negative psychological aspect—gratuitous property is evaluated and used less responsibly than property acquired for a certain sum; the population is psychologically unprepared for the efficient use of vouchers—the danger increases of oligarchic and criminal structures emerging; and finally, voucherization is incapable of realistically ensuring social justice. Some revenue from the sale of state property was to be used for social needs.

[17] See: I.L. Butikov, "Privatizatsia i formirovanie mnogoukladnoi ekonomiki v Uzbekistane," in: *Materialy mezhdunarodnoi konferentsii "Sotsialno-ekonomicheskaia transformatsiia v stranakh SNG: dostizheniia i problemy,"* Institute of Transition Economy Publishers, Moscow, 2004.

- Privatization on a chargeable basis for the same reasons. An exception was made for social infrastructure and environmental protection facilities on the balance of enterprises, as well as for the purchase of property by the work collective. Housing was privatized under privileged conditions, several impoverished categories of citizens received it free of charge.
- The transfer of enterprises together with resolving the problem of downsizing large firms and demonopolization of current production and management structures. Trade facilities and service spheres were separated from many enterprises undergoing privatization into independent entities, and if economically expedient and technically possible, into auxiliary and service workshops and sectors.

At the first stage (1992-1993), trade, public service, consumer cooperation, local industrial enterprises and the housing fund were privatized. The main methods used at this stage were sale of the entire enterprise to one physical or legal entity, reacquisition by members of the work collective, and transformation into a closed joint-stock company. In 1993, a small number of open joint-stock companies were created.

The second stage (1994-1998) comprised mass privatization of enterprises of the food and light industries, machine-building, construction engineering, and the building industry, automobile transportation, and other branches (apart from natural monopolies). Some of them went over to physical or private legal entities, others were transformed into limited liability companies (OOO). In order to attract the population, 85 privatized investment funds (PIFs) were formed, of which around 80,000 citizens of the republic became shareholders.

At the third stage (1999-2002), privatization of large enterprises of the main branches of the economy began (based on individual projects). Special attention was paid and continues to be paid to attracting foreign capital. Foreign investors were given the opportunity (on a competitive basis) to purchase enterprises in their entirety, as well as buy large sets of shares in joint-stock companies. What is more, beginning in 2002, permission was given to transfer enterprises to the authorized management of investors with the right to their subsequence reacquisition with a five-year deferment of payment, providing specific investment obligations were assumed.

In keeping with the initial setup, the state's influence on the management of privatized enterprises was and remains quite strong. And the reform of ministries and their subdivisions into associations and holding companies did little to change the essence and principles of this management. The levers of influence vary here from retaining possession of the control set of shares and changes in legislation to denying those private enterprises which do not wish to obey the right to acquire limited production resources distributed by the managing bodies, as well as making the licensing of activity of disobedient enterprises more difficult.

Problems of the Privatization Period

At the first stages, sets of shares of enterprises undergoing privatization were distributed as follows: the state retained ownership of up to 25%, members of the work collective were allotted up to 25%, up to 30% went up for free sale, up to 10% to related enterprises, and foreign investors were given the opportunity to purchase no more than 10% of the shares. In so doing, the sum percentage of government and work collective shares could not exceed 49%. After reform of the investment-attractive enterprises in certain branches, a large percentage of their shares (up to 60-80%) went to private investors. PIFs and foreign investors became the owners of the largest sets of shares. They were sold up to 49% of the shares of several open joint-stock companies on the basis of individual government decisions. As a result, in some joint-stock companies, the total percentage of shares going to PIFs and foreign investors reached 50-70%.

Soon it was discovered that with less than 25% of shares owned by the state, the government structures which managed these shares were losing control over the enterprises belonging to them. Judging by the fact that less than 0.4% of the population were PIF shareholders, the total size of the funds of these enterprises must have been relatively small. But at the end of 1997, the government adopted a decision which reversed the changes in the structure of share distribution. According to the new scheme, the state's percentage of shares was to amount to 25%, the work collective's to 26%, foreign investors' to 25%, and 24% was to be put up for free sale. During the reform of enterprises of special significance for the country's economy, the state's share does not go below 51%.

At the same time, 25% of the funds received from the sale of shares is returned to the enterprises undergoing reform for developing production, and no less than 50% of proceeds from the sale of the shares of enterprises in the leading branches (power engineering, telecommunications, railroad transport, and so on) is left at the disposal of these branches.

According to the republic's specialists, during privatization, several negative factors were noted:

- The formation of collective enterprises did not yield the expected results—the members of the work collective did not become effective property owners. On the one hand, the percentages of the enterprise's authorized capital obtained on privileged conditions were insufficient for inspiring their owners to take effective action, and on the other, many members of the work collective did not have the knowledge and experience necessary for carrying out management. Enterprise directors took advantage of this. Having extricated themselves to a great extent from the state's control, they acted more in their personal interests than in the interests of their enterprise. So the latter were then transformed into open joint-stock companies and limited liability companies.
- At the time of their transformation into open joint-stock companies, more than 80% small and medium enterprises had an authorized capital amounting to no more than 50,000 dollars. It was not taken into account that this process requires additional non-production expenses associated with the issuing and placement of shares, keeping a shareholder register by an independent registrar, publication of the results of economic activity in the mass media, obligatory carrying out of audits, and so on. And such expenses have a negative effect on the results of their financial and economic activity. The highest result was achieved during the reform of these enterprises into limited liability companies or during their sale.
- At the initial stage, a large number of enterprises were sold at their balance cost (much lower than the market price), and over time these same facilities were resold at market cost or re-profiled.

Corporate Management

Corporate management of privatized enterprises until 2003 was essentially perfunctory:

- a decision of the supervisory council of a joint-stock company could not be adopted if a state authorized person in this joint-stock company or a trustee managing the state's set of shares did not vote for it;

- a state representative had the right to stop the execution of a decision by the general assembly of shareholders;
- the transfer of the state's sets of shares to the authorized capital of economic associations was allowed (with the transfer of the right of trust management);
- the combination of membership in the revision commission and supervisory council with work for hire in the same joint-stock company was allowed and practiced, which led to manager arbitrariness.

All the same, the nongovernmental sector grew. It became obvious that if the state continued to exercise the same control and management over enterprises as before, it would hold back economic development.

In April 2003, all the above-listed provisions were cancelled. The responsibility of joint-stock company managers was legislatively raised, the procedure for their replacement was simplified, and the salary of employees of the corporate management structures was made directly dependent on the efficiency of the particular corporation's work. The enterprises' reaction was not slow in coming: general shareholder assemblies were held in 95% of more than the 4,100 joint-stock companies registered in the republic, at which decisions were adopted to replace almost 18,000 members of the supervisory councils, revision commissions, and approximately 500 chairmen of the board. This significant qualitative shift was to lead to a significant increase in the efficiency of the corporate management mechanism. Then the government began paying special attention to reducing the influence of authorized state structures on the activity of privatized enterprises, as well as to the problem of their holding back the privatization process and the development of corporate management.[18]

The priority areas for 2004 were as follows: "implementing administrative reform aimed at a sharp reduction and limitation of the state's presence in the economy, radical changes in the structure and system of management, elimination of its unnecessary links; ...elimination of the centralized distribution system, and transfer to market mechanisms for selling material resources."[19]

The results of an anonymous survey of the directors of 76 enterprises of the light and food industries carried out in 2004 confirm an improvement in the situation. Interference by state representatives in the resolution of the internal issues of these enterprises has significantly decreased. (Its negative influence was noted by only 11% of the respondents.) Management boards still participate in making the most responsible decisions, but the accent has clearly shifted toward enterprises becoming more independent (a positive evaluation was given by 92% of the respondents). The greatest obstacles were insufficient development of the market infrastructure (36%), bureaucracy (34%), difficulties with obtaining loans (32%), the low efficiency of executing the decisions of economic courts (21%), and the corruption of officials and courts (16%). Current legislation approves most managers, and enterprise directors see economic associations as real assistants in providing material resources, loans, and sales markets.

During the privatization process, the "strong" state succeeded in curbing the production slump, and partially corrected the disproportions and mistakes that arose. But in contrast to Ka-

[18] See: *Ob itogakh razvitiia ekonomiki i sotsialnoi sfery za pervoe polugodie 2003 goda i realizatsii mer po vazhneishim prioritetnym napravleniiam reform v etikh sferakh*. Reshenie zasedaniia Kabineta ministrov Respubliki Uzbekistan. Press-sluzhba Presidenta Respubliki Uzbekistan [http://2004.press-service.uz/rus/documents/uk07182003.htm].

[19] See: *Ob itogakh sotsialno-ekonomicheskogo razvitiia, otsenke khoda ekonomicheskikh reform v 2003 godu i osnovnykh napravleniiakh dalneishei liberalizatsii ekonomiki v 2004 godu.* Reshenie zasedaniia Kabineta ministrov Respubliki Uzbekistan. Press-sluzhba Presidenta Respubliki Uzbekistan [http://2004.press-service.uz/rus/documents/uk07182003.htm].

zakhstan, this type of management slowed down the development of initiative and increase in the responsibility of the management of the enterprises themselves. And the fact that they see economic associations (essentially state structures) as assistants in providing material resources shows the absence of an open market of these resources and retaining principles of the distributive system.

3. So is It to be “Weak” or “Strong?”

Both countries are taking different roads to the same destination. Kazakhstan has created a better market infrastructure and corporate management system. But there was a greater production slump in the country at the transition stage. In spite of a certain lag in development of the institutions of a market economy, Uzbekistan is resolving the problems it faces with sufficient confidence. In contrast to Kazakhstan, it managed to avoid such a severe production slump and reached the pre-reform level a year earlier (see Figure). The negative phenomena during privatization were largely similar. Neither collective enterprises, nor pseudo-market branch management structures, nor gratuitous and/or privileged transfer of state property, nor artificially formed privatized investment funds justified the expectations placed on them. In both republics, there is much more efficient development of independent business and purchase of enterprises by private business structures, which have already accumulated a certain amount of work experience under market conditions.

The reforms are continuing and there are still no convincing reasons to draw hasty conclusions about the clear advantage of the strategy of the “weak” or “strong” state at this stage. It is impossible to avoid failures in any strategy, there are no universal remedies. What is more, we do not believe the juxtaposition and comparison of the “strength” of a state and market institutions as the generator of economic development and efficient market relations to be entirely correct. It is utterly obvious that without a “strong” state legislative and executive power, without control and regulation of the institutions of corporate management, and without effective policy in the social sphere, there can be no efficient functioning of the economy. We can present many examples of the building up by “weak” states of their own “strength” in the economy. These processes are usually just as painful as during shock therapy for facilities on which the state bodies have a particularly sharp eye and the population groups associated with them.

The establishment of market relations in the country’s economy and the development of state structures ensuring the correct and efficient development and functioning of the market are two very close and interrelated, but different problems. Their functions are different, and in order to ensure the harmonious development of the economy, each structure should resolve its own tasks and be irrefutably “strong” with respect to its own obligations.