

# BTI 2010 | Uzbekistan Country Report

<b>Status Index</b>	1-10	<b>3.25</b>	# 120 of 128	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	26.9	HDI	0.71	GDP p.c.	\$	2425
Pop. growth	% p.a.	1.4	HDI rank of 182	119	Gini Index		36.7
Life expectancy	years	67	UN Education Index	0.89	Poverty <sup>2</sup>	%	76.6
Urban population	%	36.8	Gender equality <sup>1</sup>	-	Aid per capita	\$	6.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Contrary to its aims of promoting democratic reform and human rights in Uzbekistan, the so-called critical dialogue policy advocated by Germany has yielded little change in the leadership's behavior. In fact, this policy has completely nullified the value of EU sanctions introduced in November 2005 in the wake of the brutal suppression of the Andijan uprising that took place earlier that year. Nobody in the European Union leadership actually believed that sanctions with very little effect could change the nature of the Karimov regime or even the political system in Uzbekistan. The sanctions were nonetheless effective primarily as a symbol and the Germany-led critical dialogue approach has undermined this while reinforcing the regime's political will. Indeed, Karimov interpreted the concept of critical dialogue as an indication of the European Union's political weakness.

The bargaining game for which the European Union turned out to be ill-prepared has ended in a complete victory for the Karimov regime. First, the December 2007 presidential elections, which were conducted in clear contradiction to the constitution, were tacitly approved by the European Union. This has the effect of making the European Union appear more interested in dealing with an antidemocratic regime capable of maintaining stability rather than promoting democracy. Second, the fact that President Karimov's was invited to attend the Bucharest NATO Summit in April 2008 not only demonstrated Uzbekistan's importance to NATO during the war in Afghanistan, but also appeared to constitute a rehabilitation of Uzbekistan in the foreign policy arena. Third, in October 2008 most of the EU sanctions were lifted, and ten days later Rustam Inoyatov, head of Uzbekistan's National Security Service – which was involved in the Andijan massacre – was hosted by the German Chancellor's Office. In exchange, the Uzbekistan leadership paid lip service to the EU leadership's rhetoric by issuing presidential decrees to strengthen political parties, abolish the death penalty, introduce habeas corpus and to release imprisoned human rights activists (while at the same time, others were arrested and given long-term sentences). For Germany, the only palpable benefit came in the form of the construction of

a 67-kilometer railway from the Uzbek city of Termez (situated on the Afghan-Uzbek border where a Bundeswehr base is located) to the northern Afghan capital Mazar-i-Sharif, where the German contingent is stationed. In view of the forthcoming closure of the U.S. Manas airbase in Kyrgyzstan, the significance of Uzbekistan for the European Union and the United States is bound to grow, which in turn will render impossible any improvements in human rights, democratic development and the emergence of a truly market economy. There is an urgent need for sustained, strong pressure from the outside to promote democracy and human rights issues, as all domestic pro-democracy elements are marginalized and unable to effectively voice their demands.

## History and Characteristics of Transformation

Uzbekistan became an independent state as a result of the disintegration of the USSR in 1991. Islam Karimov, already in power as the Uzbek Communist Party First Secretary since 1989, declared after his election as president in 1991 his commitment to establish both a free market economy and a modern secular democratic state based on the rule of law.

But the country's strong Soviet legacy affected the nature of the new nation-state. The political leadership accepted democratic institutions only as meaningless mimics. Although the names have changed, the institutions of government remained similar to those that had existed before.

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

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

Following the 9/11 terrorist attacks in New York and Washington, the government allowed the U.S. and Germany to station their troops in Uzbekistan, hoping to gain international recognition and financial support. International pressure on Uzbekistan to commence political and economic reforms was insufficient and inconsistent. Thus the government made a mockery of the international community with minor concessions. In 2002, the regime permitted a leading human rights group to register, announced amnesties for political prisoners, and increased its participation in international organizations. And in 2003, it finally accepted obligations under Article VIII of the International Monetary Fund, which led to the establishment of full current account convertibility.

This positive trend was halted in late 2003 after the Rose Revolution in Georgia. The government tightened control over institutions that might have been able to contribute to a Velvet Revolution in Uzbekistan. International organizations were required to re-register, leading to the closure of the Open Society Institute in Tashkent. Local NGOs were forced to comply with extensive reporting procedures and tight financial controls, which had the effect of making the few remaining NGOs shut down.

After the bloody suppression of the Andijan uprising in May 2005, the government refused an international investigation. Following this refusal, the United States and the European Union introduced a number of sanctions against the government. Facing the threat of international blockade, Karimov went for a rapprochement with Russia, having concluded formal and informal agreements on a political and military alliance with it. Uzbekistan has recently begun a re-orient itself toward the European Union and the United States. But it is obvious that signals from Tashkent do not mean a crucial foreign and interior policy change is underway, but that they serve only to strengthen the regime.

## Transformation Status

### I. Democracy

#### 1 | Stateness

Although established nationwide in principle, the state's monopoly on the use of force is constantly threatened by heads of the local/regional authorities attempting to privatize the use of force in their respective territories. Regional elites thus constitute a serious challenge to the highly centralized and authoritarian regime. The regime tries to undermine tendencies to privatize the use of force by frequently rotating the heads of local/regional authorities. Another indicator of the central government's perceived vulnerability and lack of trust in local/regional law enforcements agencies is the fact that it sends special groups from the capital to arrest "important" suspects.

Monopoly on the use of force

The constitution grants all citizens the same civic rights irrespective of their ethnic origin and/or religious affiliation. Immigrants are granted the same rights after a specified period of time. The prevailing majority of the population fundamentally acknowledges the state's constitution. There are only two organizations that advocate the violent overthrow of the government, question the legitimacy of the nation-state and aspire to create an Islamic state: the Hizb-ut-Tahrir al-Islami, a nonviolent radical Islamic group, and the Islamic Movement of Uzbekistan. The government's adopted concept of "ethnic nationalism," which claims Uzbekistan to be an Uzbek ethnic state limited to the country's present territory, has bred controversies among the ethnic minorities of Uzbekistan. This ethnic nationalism strictly excludes Uzbek diasporas in neighboring states. The Persian-speaking population (ethnic Tajiks and Iranians in and around Samarkand and Bukhara) as well as ethnic Russians and other Russian-speaking minorities consider themselves discriminated against by the Uzbek authorities in matters of employment, education and culture.

State identity

According to the constitution, the government and laws of Uzbekistan are secular. The constitution prohibits religious- or ethnic-based political parties from being established. Although authorities use rhetoric employing Islamic symbols, religious dogmas have no noteworthy influence on politics or the law. All religious activities

No interference of religious dogmas

beyond state-run institutions are persecuted. Islam and the Russian Orthodox Church enjoy some advantages because activities aimed at converting the adherents of one faith to another (proselytism) and any other missionary activity are prohibited by the law.

Although it extends throughout the territory of the country, the state's basic infrastructure is highly deficient in operational terms. All spheres of public service suffer from rampant corruption, poorly educated civil servants and inadequate technical facilities. Unlike most other CIS states, Uzbekistan has not yet accepted public service law, and the government has thus far blocked any such legislative initiatives.

Basic  
administration

## 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.

Free and fair  
elections

President Karimov's candidacy in the presidential election of 23 December 2007 was in clear violation of the constitution (article 90), which states: “A person may not be elected to the office of President of the Republic of Uzbekistan for more than two consecutive terms.” After having served two terms, both of which had been extended via referendum, Karimov's candidacy was approved by the Central Election Commission without any reference to the constitutional ban of third terms.

Rulers are not democratically elected, and they exercise the power to govern only through brutal coercion.

Effective power to  
govern

Political and social groups are denied the freedom of association and assembly by the regime. 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.

Association /  
assembly rights

There is no freedom of opinion or of the press. According to official statistics, there are 1,031 media outlets currently operating in the country, including 100 TV and radio stations, four news agencies, and more than 900 national and local newspapers as well as magazines published. Nevertheless, despite these impressive numbers and the 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

Freedom of  
expression

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 private initiative and freedom of thought. During the period under review, the government closed several international NGOs and western media agencies. Recently, the government expelled the Konrad Adenauer Foundation's representative, who had made critical remarks regarding the situation in the country. Several independent journalists and NGO activists have been persecuted and imprisoned under false accusations during the review period. In one illustrative case, five journalists of the independent magazine, Irmok, were sentenced to eight to twelve years in prison for being members of a banned religious organization. The religious beliefs of these five journalists were just a pretext for preventing an independent press from emerging in Uzbekistan.

### 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. However, the rule of law is precarious in practice and the constitution fails to protect rights and freedoms.

Separation of powers

The constitution provides for separation of powers between a strong presidency and a supreme assembly (Oliy Majlis) with the power to approve the budget. In practice, there are no institutionalized checks and balances, and no identifiable separation of powers. The president and his administration dominate the executive, legislative and judicial branches of government. Relations between the central government and its sub-national agencies (Hokimiyats) are characterized by sharp imbalances in the distribution of power and resources, which works to the advantage of the central government. The executive does not exercise its powers lawfully, especially at the sub-national level.

The judiciary is institutionally differentiated but totally subordinated to political authorities. Its decisions and doctrine are also severely constrained by functional deficits such as limited resources and rampant corruption. Although the constitution provides for an independent judiciary, judges do not act independently of the executive branch. An informal political hierarchy of legal and law enforcement institutions secure the judiciary's dependence on 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 powerful officials in the presidential administration and security services.

Independent judiciary

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. During the period under review, Azamkhon Bahromov, a former governor of the Samarkand region, was the only high-ranking Uzbek official to have been sentenced to 15 years in prison for "extortion, blackmail, bribery and embezzlement of public funds on a large scale, and creation of criminal gangs." However, it was the informal power base that Bahromov had created which served as the rationale for sacking and sentencing him. President Karimov stated at an extraordinary session of the Samarkand Regional Council of People's Deputies: "Bahromov not only surrounded himself with criminals, but also evoked a panicked fear among the population when referring to his name. Together with his associates, he created a shadow economy network aimed at cleaning out the state. Bahromov's covertly created organizations were given the official status of an association."

Prosecution of  
office abuse

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 extra-judicial killings in custody and detention facilities continue. According to human rights organizations and the United Nations, torture and abuse remain systematic. During the government's fight against terrorism and radical Islam, police and the National Security Service forces have arrested and tortured thousands of non-violent Muslims.

Civil rights

As for the civil rights of women, violence against women and girls constitute a crime punishable under criminal law – the prominent exceptions being domestic violence and marital rape. Criminal law provides for immediate means of redress and protection. But there is indeed a wide discrepancy between legal norms and their implementation which is rooted in traditional stereotypes regarding the roles of women and men in society. Uzbek citizens have no right to change their faith.

#### 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. State advisors appointed by the president "shadow" other central political institutions, societal life and national economy. They are authorized to give orders to all branches of the government. But the presidential administration is mindful that the operation of state advisors is not regulated by the constitution, nor

Performance of  
democratic  
institutions



mentioned in other laws. The authority of state advisors is limited both by the president and the informal distribution of power between him and informal networks. The majority of strategic decisions issues directly from this inner circle. The executive, legislative and judicial powers merely respond to them.

Uzbekistan is ruled by a cruel dictatorship and has not had meaningful democratic experiences in the past. It is therefore impossible to evaluate the commitment to democratic institutions, neither among political elites nor in Uzbekistani society. The society is afraid of uncertainty and further instability and the sense of traditional loyalty toward the authorities remains strong. People remember the civil war in Tajikistan and its catastrophic consequences, and the authorities intentionally fuel these sentiments. Criticism targeting the country's leadership is often perceived by the population as a sign that the situation is growing increasingly dangerous. If the criticism originates from the West, many perceive it as an "attack against our own people."

Commitment to  
democratic  
institutions

## 5 | Political and Social Integration

All five parties represented in the parliament are "agents" of the presidential administration. The recruitment of members was conducted mainly among civil servants who are often under pressure from authorities. 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.

Party system

The opposition is highly fragmented. The organizational weakness of opposition parties can be attributed to government harassment and intimidation, but also to home-made problems. Reciprocal suspicions and accusations of collaborating with the government make the prospects of a united opposition and its effective participation in political life unrealistic.

Interest groups are present only in isolated social segments, and they tend not to cooperate with other interest-based organizations. A large number of social interests remain unrepresented as informal networks within the political system represent the interests of power 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. The president created these patron-client networks largely to ensure his control over competition for resources. Although the names of these groups are derived from regions such as Samarqand, Bukhara, Tashkent or Ferghana, they have lost any affiliation to these regions.

Interest groups

Consent to democracy as a form of government is very low (less than 30%), and political opposition quickly tends to call the constitutional framework into question. 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.

Consent to democratic norms

For fear 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. 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. The highest degree of self-organization can be observed among urban Uzbeks, Tajiks and Koreans with an education level above the secondary level, while Russians and other representatives of European ethnic minorities, as well as rural Uzbeks and Tajiks with little education tend not to engage in associational activity.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

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 planned economy has emerged instead. Refusing to implement small- and medium-sized enterprise privatization on a large scale, the government continues to exercise firm control over all significant economic activities in the country. The government halted privatization in the agriculture sector and issued decrees in 2008 to re-nationalize privatized enterprises and farms. Structural reforms have not been fully implemented. The restructuring and privatization of large-scale enterprises is proceeding slowly and will be halted by the global economic recession. The government’s reluctance to yield controlling shares of strategic enterprises and the difficult business environment have curtailed outside interest.

Socioeconomic barriers

Poverty and social exclusion is quantitatively and qualitatively extensive, as well as structurally ingrained. During the period under review, disparities in socioeconomic development have grown significantly, although the Gini coefficient for Uzbekistan has decreased since the mid-1990s and was at 36.8 in 2008. Disparities are primarily regional, urban-rural and gender-based. Some studies suggest that around 70% of the poor population live in rural areas, where subsistence economies prevail. Uzbekistan's GDI value of 0.699 should be compared to its HDI value of 0.702; its GDI value is 99.5% of its HDI value, placing Uzbekistan 47th out of 156 countries with both HDI and GDI ratings. However, the weak methodology of the studies from which the Gini, GDI and other such coefficients are derived, which rely primarily on data from governmental sources, casts doubt over their accuracy in representing real poverty and inequality levels. Economic development of the capital city comes at the expense of the rest of the country. The poorest region, Karakalpakstan, suffers profoundly from the consequences of the desiccation of the Aral Sea. Gender- and education-based discrimination also aggravates the highly inequitable distribution of public wealth. The quality of and access to higher education has significantly regressed, which only spurs development disparities.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	12030	14307.5	17030.9	<b>22311.4</b>
Growth of GDP	%	7.7	7.0	7.3	<b>9.5</b>
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.6	0.6	1.1	<b>1.2</b>
Export growth	%	21.0	5.2	-2.6	<b>32.4</b>
Import growth	%	18.7	4.4	12.0	<b>36.8</b>
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	4115.2	3626.9	3296.6	<b>3085.9</b>
External debt	\$ mn.	4830.8	4289.9	4038.3	<b>3875.5</b>
Total debt service	% of GNI	7.3	5.5	5.0	<b>3.7</b>

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	17.4	17.6	18.1	<b>16.7</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.3	2.4	2.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The legal framework necessary for a successfully functioning market economy is in place. But in practice, there are no uniform rules for market participants, and the informal sector is substantial. The state intervenes heavily in the economy through overregulation 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 subnational authorities frequently seize private and public enterprises' financial resources.

Market-based competition

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.

Anti-monopoly policy

Foreign trade is largely state-supervised and controlled by regime members. The economy is extensively dissociated from the world market, which might have 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

Liberalization of foreign trade

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. Trade policy remains restrictive. Effective rates of protection against consumer imports are high. The government imposes a heavy regulatory burden on individual entrepreneurs. The situation is further aggravated by the widespread practices of bribery and extortion within the local governments, and 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.

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

Banking system

## 8 | Currency and Price Stability

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 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, as well as higher costs of production and increased wages, estimating the actual inflation rate to be at least 20%.

Anti-inflation /  
forex policy

There are serious problems with setting objectives and achieving a consistent policy for stability. The government's fiscal and debt policies aimed at maintaining macroeconomic stability are often carried out under supervision of law enforcement agencies and secret services.

Macrostability

## 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. Quite frequent are cases of private property "expropriation" by government bodies to the benefit of members of the regime and the president's family.

Property rights

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 serf-peasants. The state dictates to them what crops they can plant, to whom they will sell their produce, and at which price. State companies and monopolies built up by regime members dominate all strategic business sectors. Setting up a private company takes an average of 29 days, compared to the world average of 48 days. Both obtaining a business license and closing a business are difficult. Regulations lack transparency and are sometimes inconsistent and unevenly applied.

Private enterprise

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 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.

## 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. Local authorities frequently compel pensioners to spend part of their pensions on lottery tickets and subscriptions to government newspapers. The system of voluntary insurance against illness, unemployment and disability is in its nascent phase. There is no mandatory public insurance and no effective security against unemployment, indeed social protection systems exist on paper only. The

Social safety nets

government and its labor agencies artificially suppress unemployment statistics, reporting unemployment rates below 1%. However, independent survey data and estimates by Russian demographers place the rate above 45%. Everyone, except orphans the disabled, must pay for health services. Only state-owned enterprises pay child-care allowance.

There are institutions to compensate for gross social differences, but they are very limited in scope and quality. Women and members of ethnic or religious groups have limited access to education, public office, etc. The Welfare Improvement Strategy Paper for 2005 – 2010, which was endorsed by the government, has yet to be put into practice. There are no mechanisms that would ensure equal opportunities of employment in state institutions or guarantee equal access to public services. The sheer absence 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.

Equal opportunity

## 11 | Economic Performance

According to the government, economic activity grew significantly during 2007 and 2008 and GDP grew by 7.3% and 8.1% respectively. These claims, however, are not supported by indirect indicators such as living standards and the fact of massive out-migration. Economic output has improved during the review period thanks primarily to significant export growth in machinery, chemicals and metals. Nevertheless, macroeconomic policy lacks consistency. Fiscal policy remained tight, with a better than budgeted outcome, and the external borrowing policy remained prudent. Cash shortages were a problem during the period under review, especially for the private sector. Regulations imposed restrictions on cash in circulation to contain inflation and curb the activities of the shadow economy. However, these restrictions have limited commercial banks' access to their correspondent accounts at the central bank. Increases in international gold prices, combined with volume increases in non-traditional exports, helped boost export earnings.

Output strength

## 12 | Sustainability

Environmentally compatible growth receives only sporadic consideration and has almost no institutional framework. In the 2008 Environmental Performance Index, Uzbekistan ranks 107th out of 149 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

Environmental policy

the environment. In 2007, nature reserves 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. Environmental awareness is basically nonexistent 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.

Although private education institutions are legally possible, all institutions for education, training, and research and development are state-run, and focus on economically important sectors. Research and development is underdeveloped. Nevertheless, 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 comparatively high tuition fees, rampant corruption, and the absence of distance learning and evening classes sharply reduce access to higher education and heavily influence social disparities. 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 four to five 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, underqualified 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.

Education policy /  
R&D



## Transformation Management

### I. Level of Difficulty

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

Structural  
constraints

There are weak traditions of civil society. Its basic elements emerged in the late 1980s and early 1990s, but for political reasons have failed to develop and remain weak. Since 2003, civil society has been subjected to considerable pressure from the authorities, who regard NGOs as "subversive organizations" and an instrument used by the West to encourage "color" revolutions. Due to their limited and unprofessional personnel, NGOs failed to root themselves firmly in society during the more or less "favorable" period from the mid-1990s until early 2002. In many instances, NGOs worked for themselves: they served the interests of a rather small and unchanging group of individuals, thus raising distrust in the society. A traditional institution such as the "mahalla" with its family/kin, neighbor and other informal connections could have become a basis for civil society, but was instead integrated into the state apparatus. 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.

Civil society  
traditions

There are deep divisions within society and the political elite that follow local, regional and social lines. The two axes of polarization are found between center and 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

Conflict intensity

grievances and may lead to violent social conflicts, but not religious ones: The main bone of contention between the government and religious opposition groups is not Islam or its theological interpretations, but rather the country's acute social, economic and political problems. The government suppressed, but did not resolve, ethnic conflicts that flared up in the late 1980s and early 1990s between different ethnic groups in the Ferghana valley. The risk of ethnic conflict is particularly high in this densely populated region; to reduce it would require intensive cooperation between Uzbekistan, Kyrgyzstan and Tajikistan. As the Andijan uprising indicated, the risk of social conflict increases when the poverty levels increase dramatically and the income gap grows.

## II. Management Performance

Uzbekistan is one of the few CIS countries in which there has been no change in the ruling elites over the last 18 years. Cadre purges frequently undertaken by President Karimov do not constitute a real change in mentality and management because "new" appointees are often recruited from the same elite circles. In the early and mid-1990s, this allowed the government to maintain stability, avoid ethnic and other conflicts as well as prevent dramatic slumps in production. However, it is the elites themselves who have become the main obstacle to the country's transformation. They have become a closed caste isolated from the rest of society. The state apparatus now dominates society and views it merely as the forum for its activities.

### 14 | Steering Capability

The political leadership claims to pursue 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 in 1992 the slogan "Uzbekistan is a country of the great future," but has failed in the last 17 years to formulate long-term strategic goals and priorities for the country's development. The duration of various development programs accompanied with loud propaganda campaigns provides a good indication of this tendency. Such programs as the "Year of Youth" (2008), the "Year of Social Protection (2007), the "Year of Charity and Medical Workers" (2006), "Year of Health" (2005), "Year of Kindness and Mercy" (2004) have not generated sustainable effects, as their stated goals vanish from public discourse at the end of the year they are introduced.

Prioritization

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

Implementation

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

Policy learning

## 15 | Resource Efficiency

The government wastes state resources (human, financial and organizational), and the elites consume most state resources themselves. The government has created a power-locked economy. Newcomers cannot access the country's resources, which are controlled by power groups within the government. This severely reduces the development capacity of the economic system. The government pursues the so-called "constant pie orientation" policy 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. They fear that an increase of resources would start new redistribution struggles within the established power groups and thus trigger the emergence of new competitors that could seriously endanger the regime stability.

Efficient use of assets

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 counterproductive 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. While he can stretch, suspend and break the rules of the game, he cannot change them

Policy coordination

permanently. His power is vast, but it is limited by the need to maneuver between influencing strategic groups and maintaining a balance between them. The most important reason is that conflict regulation provides the government with opportunities for corrupt gain. These corrupt solutions of conflict objectives often create considerable dissatisfaction and do not really end the conflict, but rather prolong it. As this provides continued opportunities for profit, these failures only increase the tendency toward hyper-centralization of the state. That is, government members are unwilling to leave conflicting objectives to other institutions because they can monopolize income through conflict solution. Moreover, leaving conflict resolution to an independent authority could undermine the government's power.

Portions of the state 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. In the 2008 Transparency International CPI, Uzbekistan ranks 166th out of 180 countries. Government-controlled media prefer not to discuss the topic of corruption within government agencies. Fighting corruption is only an instrument in the hands of the government used for intimidating the non-compliant. Prosecution and courts consider corruption charges only when accusations of corruption – following the leadership's instructions – are brought against independent journalists, human rights activists or former policymakers who have fallen out of favor with the head of state and forced to retire.

Anti-corruption  
policy

## 16 | Consensus-Building

There are no major political actors who want to build a democracy with a market economy. The notion that there is a dichotomy within the ruling elite between members of the corrupt "old guard" on the one hand and a small group of young "reform-minded" politicians on the other, is an illusion. Some parts of the ruling elite try to position themselves in the eyes of the international community as "reform-minded people without political voice and influence" in order to gain external political support during future power struggles. The entire ruling elite is utterly and completely incapable of promoting political and economic liberalization. If "reform-minded" politicians attained full power, they would "reform" the existing economic system and resource distribution so as to increase their own private share.

Consensus on goals

There are no relevant political actors who would advance democratic reforms.

Anti-democratic  
veto actors  
Cleavage /  
conflict  
management

The political leadership does not reduce existing divisions or prevent cleavage-based conflicts from escalating. The government pursues either conflict-avoidance or conflict-suppression policy. 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 been energetically sought to transform NGOs into GoNGOs (government-organized NGOs). The vast majority of NGOs were compelled to join the National Association of NGOs, the rest were coercively shut down or rendered “normal” economic enterprises. Grants issued from foreign donors have been severely restricted and reduced to nearly zero. This has resulted in a situation where only GoNGOs participate in the political process – as puppets. The authorities exclude independent NGOs from the political process and persecute those that resist. The progressive crackdown on independent NGOs raises the likelihood that in the near future the only remaining non-governmental entities will be GoNGOs.

Civil society participation

The political leadership manipulates memories of historical injustices as a weapon against political opponents. The word “reconciliation” does not exist in the vocabulary of the political leadership. Individuals victimized during the Soviet period were exonerated without taking into account whether they committed crimes or were innocent. This kind of “blanket” exoneration does not facilitate reconciliation between victims and their prosecutors.

Reconciliation

## 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 its 18-year reign, the government has not made any genuine effort to integrate thoroughly into the international community. The government insists that the country has its own unique way of development that does not entail adopting external methods. In recent years, 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. In all other instances, the government regards cooperation as undesirable, 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 organization’s operations in Uzbekistan.

Effective use of support

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

Credibility

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.

Regional  
cooperation

The issues of transporting goods and using trans-boundary water resources constitute one of the stumbling blocks in relations with Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. Exchange of gunfire at the Uzbek-Kazakh, Uzbek-Turkmen and Uzbek-Tajik borders is quite regular. The border between Uzbekistan and Tajikistan is mined. There is no air connection between Uzbekistan and Tajikistan. A visa requirement was introduced for Turkmenistan and Tajikistan for traveling citizens in 2000. The visa requirement with Kyrgyzstan was lifted only in 2006. The free exchange of goods, capital and labor, as well as free trade between the countries has been made extremely difficult. Dialogue between representatives of civil society in Uzbekistan and neighboring countries is practically impossible. The situation is aggravated by periodically conducted hate campaigns against neighboring countries, especially Tajikistan.

## Strategic Outlook

Uzbekistan continues to suffer 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. 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, weak state institutions, unstable economy, oppressive social and religious conditions, and a generally frustrated population breeds political instability throughout this part of the CIS region. The current demographics and population growth will also play a critical role in the outcome of any political transition, which will have significant implications for the entire region.

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 more political, financial, technical and organizational support for remaining civil society structures as well as for opposition parties in and outside of Uzbekistan; producing and broadcasting programs in the Uzbek language through radio, satellite television and the Internet in order to provide the people with independent news and analyses as well as to promote democratic values and consciousness;
- intensifying face-to-face engagement, particularly for young people;
- developing relations both with political figures at the regional level (Hokimiyats will play a significant role in the redistribution of power and resources under a new central government) and with second- and third-tier officials in order to promote democratic values and consciousness within the state apparatus;

- establishing contacts to the military, judiciary, police forces and other security services in order to avoid massacres on the scale of Andijan in 2005;
- attempting to launch a “dialogue” with President Karimov and other leading regime members on arrangements for exiting peacefully from political power, combined with indications of the alternatives (financial sanctions and legal cases);
- strengthening EU sanctions against the government and devising other sanctions to isolate members and supporters of the political leadership by publicly identifying companies and bank accounts they control, which would highlight alleged corruption and pave the way for legal prosecution of economic crimes.