

CHAPTER Building Social cohesion in the Transition Period

1.1. *Social cohesion as a category of human development*

The theme of this report is social cohesion and human development. Social cohesion is an elusive concept; it is easier to recognize it by its absence than to define. Lack of social cohesion reveals itself in increased social tension, crime, minority emigration, and ultimately in civil strife. All these impact negatively on human development. Positive social cohesion can be described the invisible glue that keeps society together even in difficult, stressful times, such as the process of independence which Uzbekistan is going through at present. Social cohesion may be derived from a feeling of belonging to a larger social group. The feeling that one has more in common with one's fellow citizens than not seems to help people live in peace and work positively to find solutions. This element **of basic good** will may be especially critical when economic times are bad or when there sudden dislocations occur. Social cohesion requires that there be **tolerance of diversity and respect**, both in the law and in people's mentalities, for people who differ in terms of religion, ethnic group, economic circumstance or political opinion.

It is hard to specify easily the relationship between social cohesion and human development. Perfect concord is probably neither necessary, attainable or desirable;

that may even be totalitarian, uncreative and boring. A major difficulty for policy-makers is that the minimum amount of social cohesion necessary for a society tends only to be revealed in retrospect, when it breaks down. Things may look smooth on the surface for many years, but then, out of the blue, an insult, crime or provocation leads to an explosive, catastrophic event.

Social cohesion contributes to human development by providing one of the inputs into the output we call human development. It can become a virtuous circle; with human development in turn reinforcing social cohesion.

In our analysis of social cohesion and human development it may be useful to look at the following aspects:

- *Economic Development.* Economic well-being is the end-result of an individual's access to opportunities, to income, to wealth, to food, clothing, housing, and public amenities.
- *Spiritual or Cultural Development.* Spiritual well-being may be described as the satisfaction an individual derives from having the opportunity of fulfilling his personality, through education, through work, and by taking part in cultural, family or religious activities.

Spiritual well-being is in part influenced by state spending on education, the arts and the opportunity available for employment. Spiritual well-being thought to be positively related to economic well-being, though this is by no means a linear relationship.

- *Health Status.* An individual's state of health and life expectancy depend in large measure on access to private and public goods and amenities such as food, shelter, clean water and an unpolluted environment. It is also affected by life style choices such as the number and spacing of children, participation in sport or physical exercise, smoking, etc. Third, and perhaps relevant for state policy, it depends on the level and distribution of health care services available and accessible.
- *The Legal Environment.* The legal environment or culture in which an individual lives and works may be characterized by the degree he or she may be said to enjoy political, minority and religious rights and freedoms and human rights. The legal environment may be characterized by the presence or absence of democratic political norms and institutions, by the nature and security of property rights, by the degree of freedom enjoyed by individuals and businesses from the risk of attacks on life and property, and by the transparency and fairness of the police, the government administration, the tax authorities and the courts.
- *The Physical Environment.* The physical environment in which a person lives may be captured by enumerating the country's original types of terrain and endowments of natural resources, and by noting the ways, sustainable and unsustainable, that man has altered them. We can measure levels of

pollutants, rates of destruction of non-renewable natural resources and endangered animal species, and so on.

Each of the above-mentioned influences on humanity can in theory be aggregated into an index for the whole country as a human development indicator.

At the same time it needs to be stressed that an individual's aggregate "score" will still fall far short of giving a true picture of the person's position in society. Subjectively, because people with different tastes or expectations may perceive identical outcomes differently, and also objectively, because many hard-to-measure but nevertheless real aspects of relative and absolute well-being are poorly captured in the above measures.

Part of the problem is that the most easily measured elements in the above-listed categories tend to be economic or political inputs rather than true welfare-related outputs. Put another way, the easy-to-measure elements may only very poorly reflect the psychological or spiritual reality experienced by the individual or his or her degree of satisfaction with the present level of human development. Real development should mean a process in which people feel ever greater satisfaction in and confidence about the present and ever greater optimism about the future, both for themselves and for their children. It is logical to judge a government's economic and social policies on whether the above sub-indicators of human development are rising for society generally (or for targeted vulnerable groups within society).

People live in society. They cannot help comparing their situation with that of their immediate neighbors, their peers, and those of other social strata and ethnic groups. Some people may feel that society is fair if it provides them with equal opportunities for the realization of their aspirations, even if unequal outcomes are the result.

Many elements of human development have a relative as well as an absolute aspect: wealth, poverty, spiritual well-being, legal rights and freedoms, attitudes toward women, etc. - all these may be somewhat differently conceived and understood in different countries. To a degree their objective index values, and the importance attached to them, depend on people's customs, traditions and mentalities.

Even if aggregated, the above indicators may still not give a full picture of human development in a society. One element that is difficult to measure but of great importance is the **degree of social cohesion** of a society, the degree to which all groups and strata feel connected to the society even though differing in economic situation or ethnic status. The concept of social cohesion is attracting renewed attention as a concept that unites various strands of research about what factors make for progress in human development, especially in countries undergoing the stresses of economic transition and rapid change in population.

Box 1.1. The Concept of Human Development

The concept of human development represents a new paradigm of development which encompasses growth as an important objective, but subordinates it as a means to the ultimate end of enhancing peoples' lives. The production of goods and services helps to raise the material standard of living of people, but what is most important is that people are able to translate the acquisition of commodities into more satisfying lives. The production of material goods is a necessary means of development, but not a sufficient means. Without material goods to satisfy many of their basic needs, people could not develop ways of furthering human development, such as the public provision of education and health and other social services. Many aspects of human development are not dependent on a high level of income. A country does not require great opulence to be democratic, to treat men and women equally, or to allow people to participate freely in the life of their community.

Human development is a comprehensive approach to development, which encompasses what are commonly regarded as two separate objectives, economic development and social development. This division between "economic" and "social" is an inherently artificial one. They are both aspects of one development process, namely, the development of human beings. The purpose of development is to enhance people's capabilities, which can be exercised in a broad range of economic, social, political and cultural activities. The human development approach is pro-growth and pro-jobs, and emphasizes the character or pattern of growth.

All societies, even the most long-established and politically stable, exhibit a variety of tensions:

- Between rich and poor - at the extremes, and also between the (new) rich and the middle layers of the income distribution, and between the latter and the poor. The first tension may be specially acute if the middle strata's standard of living suddenly no longer correspond to their professional or educational qualifications.
- Between ethnic groups in multinational states. Especially dangerous is the exacerbation of these tensions by region and in regions or enclaves with high concentrations of minority groups.
- Between religious groups. Distrust among groups of different religion often takes the form of economic, ethnic or political competition.
- Between regions. These tensions can overlap with ethnic and religious tensions, especially where minorities are concentrated in particular regions.
- Between the federal centre and the regions, especially if it is felt that the capital is taking a disproportionate share of public resources.
- Between generations. Children and older or retired people may have different statuses in different cultures, and older people may be more negatively affected spiritually by change. Children, students and retired people make different demands on the state budget; they are economically dependent on the taxes and intra-familial transfers of the working-age population.
- Between men and women. There may be conflicts of interest and tensions between the sexes. These may involve differences in statutory and **de facto** rights, as well as differing levels of economic well-being due to segmentation of the labour market, asymmetric labour-market participation due to child-rearing, or unequal intra-familial transfers.
- Between political parties and movements.

Extreme exacerbation of any of these tensions can result in a loss of social stability in society, violent incidents, armed conflicts and even civil wars. Practically the whole history of civil wars, revolutions and factional coups d'etat goes back to an escalation of tensions of the above sort. And just about any war, but especially a civil war, entails interruption of economic growth and negative progress on the indicators of human development.

How can social cohesion be prevented from deteriorating, be maintained and strengthened in a society? At the level of state policy with respect to nation-building, the question is how to ensure that people with their different economic and other interests accept national goals and opt not to exacerbate existing tensions. How and to what extent can the state be the driving force behind the establishment of a workable public consensus that assures social cohesion?

Although non-governmental, private and religious organizations, not to speak of individual personalities such as 'stars', may influence public opinion in the direction of social cohesion, it is presumed that the government has the primary responsibility for formulating an **inclusive national ideology** and for communicating it to different sections of the population. States which do not manage to find workable answers to these questions and put them into practice may see the results in reduced economic growth, greater social conflict and a poorer record of human development.

All societies bear heavy legacies from the immediate and distant past. The task of those who would promote social cohesion and human development, particularly in new countries, is to select desired elements and to weave them into a national vision which can carry the country forward. To make a useful reconciliation of the past with one's present and future aims for the country involves first, knowledge of the past, so that the best of the past may be nurtured and cherished.

The problem of social cohesion is also connected to inequality period. The poor in a society, by definition, fail to reach even an average economic standard. Women may have fewer opportunities than men for

employment in the money economy. Once employed, they may not receive the full wage that men get for the same work. They may not be allowed, or not have the confidence, to participate in elections or political activities equally with men. Ethnic minorities may not feel free to exercise their rights or opportunities for developing their national culture, customs or language. The rural agricultural population may enjoy significantly fewer amenities and facilities than the urban population, as well as having lower standards of living. Senior citizens may have considerably lower standards of living and human development than younger or middle-aged people. They may find modern medicine or culture alien and unfamiliar, and feel depressed that times have changed and their generation must necessarily die out.

The problem of inequality of access to economic, spiritual, cultural and legal amenities, and to political rights and freedoms is an age-old problem. Economic and social policies are often devised to try to reduce it. Some theories hold that the economic welfare of society ought to be regarded not from the standpoint of average attainments or per capita levels of consumption, etc., but by the level achieved by society's poorest member or members. The object of policy then becomes to maximize, or at least raise, the minimum rather than focus on raising the average. Ensuring social cohesion may mean making sure that inequalities do not exceed a threshold beyond which it is feared that whole strata may consider themselves unfairly treated and act accordingly.

Social cohesion in society, when it does its job, is like a symphony playing softly in the background. Each musician plays his or her part, but together under a conductor they turn isolated sounds into a harmonious piece of music. The role of the conductor in such an orchestra tends to be played by the federal state.

The "1997 Uzbekistan Human Development Report" aims to examine the problems of "social cohesion", "culture" and "human development" in Uzbekistan in the present period of transition.

The structure of the Report reflects the authors' concern with key problems and challenges faced by the newly independent state in transforming the economy while at the same time maintaining social cohesion and providing for a revival of an inclusive national culture that all citizens can be proud of.

Box 1.2 Central Asia: a region of large recent population shifts

In the 1930s and 1940s Central Asia received millions of migrants, forced, war-time and voluntary, from the Slavic areas in the west of the USSR. Almost all ethnic groups living in the western republics ended up there. The Soviet state caused the migration of millions of Slavs - Russian, Ukrainians and Byelorussians, - as well as the representatives of other ethnic groups such as Jews, Crimean Tatars and Koreans to the strategically important territory with the view both to developing it and strengthening central control over it.

The present civil war in Tajikistan and flare-up of Uzbek-Kyrgyz violence in the Kyrgyz Fergana valley in 1990, as well as news from Bosnia, Chechnya, Albania and other conflict-ridden parts of the former Soviet bloc have had a strong psychological impact on the people of Central Asia...

Between 1991 and the beginning of 1996 in the five Republics of Central Asia, a total of 1.7 million Russians, 161 000 Ukrainians and 29 000 Byelorussians sold the if property and emigrated, as Germans and Koreans.

However by 1995, since the previous three years had seen no new conflicts, and the measures adopted by authorities had been fairly successful in restoring confidence, the number of emigrants began to decline. Moreover, some who had emigrated earlier began to come back. But the region will feel the effects of the "brain drain" that followed the breakup of the USSR for years to come.

(Based on a Conference Report on Refugees and Migrants in the Countries of the CIS. Public Information Section of the UN/UNHCR.)

1.2. Maintaining social cohesion (luring the transition period)

Uzbekistan, perhaps uniquely amongst the states of the former USSR, has been able during the first years of the transition period:

- To prevent a total collapse of the economy. Uzbek GDP fell cumulatively only 18% and official data indicate that it grew 1.6% in 1996. Real wages have been relatively stable since 1992. Consumption per capita was hit by high population growth, but Uzbekistan's remains a relatively good post-Soviet performance compared to the 45%-plus cumulative GDP drops observed in Russia and the other CIS states.
- To maintain a certain degree of sociopolitical cohesion in the country during the first five, most stressful years of transition.
- To a certain degree to bridge the gap between the growing need for financial resources for the solution of social problems, on the one hand, and decrease of the level of production (and, consequently, tax revenues to the budget) and incomes of the population on the other. Indeed the need for additional investment in social support has become necessary to the adjustment of the economy to market reform. At the same time, during the five years of reforms, the GDP decreased by 18.2%.
- The gap between the need to protect the past gains made in social indicators, on one hand, and the need reorganize and reform the social sector, on the other. If assessed by its social achievement and indicators like life expectancy, Uzbekistan prior to the beginning of reforms was among the advanced states of the world. The former system of education provided training of highly skilled experts in many spheres of activity. However, the dramatic reduction of budget financial resources resulted in the deterioration of the situation in these major sectors, providing for the development of human resources that, in turn, has required a revision of the policy in areas of financing and management of education and public health services;
- The gap between the expediency of maintenance of a high level of employment and incomes of the population on one hand, and an increase in productive efficiency on the other. The stimulation of aggregate demand is generally one major factor for overcoming economic recession and economic crisis. From this point of view, of certain importance was the maintenance of incomes of the population and preservation of existing jobs. On the other hand, in the period prior to reforms, excess employment was already in evidence in many sectors of the economy.
- The gap between the need to index to protect the real value of wages and the negative influence of this indexing on the growth of inflation. The rapid liberalization of prices at the first stage of reforms has caused a high level of inflation, negatively affecting the standard of living of the population. To mitigate the influence of inflation, the government has had to carry out indexing of the current incomes of the population, especially of those with fixed incomes. However, at the first stage of reforms, when inflation largely has a character of being demand-driven, the indexing of incomes caused a further growth of inflation, or at least counteracted measures to reduce inflation;
- The gap between the need to maintain of a highly-skilled labour force and the absence of financial resources to pay such skilled labour. Reduction of budgetary resources and high inflation had negatively impacted on real incomes, first primarily workers employed in the sector of the economy supported by the budget, ie public health services, education, culture and soon. The reduction in real wages has resulted in qualified labour outflow from the important branches, forming the human capital. Thus, there emerged a dangerous precedent of loss of the achieved level of development in major branches, which are the conditions for enhancing the potential of the country in the intermediate to long-term;

In the recent past Uzbekistan received some negative international publicity, particularly at the start of the transition period. Before 1996 there were very few outside observers with anything positive to say about the country's stabilization record, even though with respect to GDP and its main components that record was much better than in the rest of the FSU. It was asserted that the good performance was due to inadequate measurement, a favourable initial industrial structure, with a lower proportion of uncompetitive Soviet-era industries like defense, machinery or coal. The relatively good performance was attributed to an unsustainable postponement of painful enterprise reform, unsustainable exports of raw materials, or unsustainable rises in imports of consumer goods. Little was written or disseminated that underscored the relatively good record of the country with respect to the distribution of income and the preventing of deteriorations in the health and educational profile.

Now the Uzbek leadership's reform strategy is getting a more sympathetic ear in some circles. The government's determination to move step by step to a mixed economy while paying attention to the most vulnerable social groups and to the imperatives of maintaining cohesion in a multi-ethnic society has won a certain measure of respect. Economies and societies cannot be transformed overnight. Wise governments need to evaluate their policy trade-offs not only in light of their impact on economic variables but also in light of the population's likely reaction.

Table 1.1. Poverty and incomes in countries in transition (poverty line = 4\$ a day per capita at purchasing power parity)

Countries	% of population under the poverty line	
	1987-1988	1993-1994
Lithuania	1	46
Latvia	1	23
Estonia	1	40
Ukraine	2	41
Belarus	1	23
Moldova	4	65
Russia	2	38
Kazakhstan	5	50
Uzbekistan	24	29
Kyrgyzstan	12	76
Turkmenistan	12	48

Source; *World Bank (1996): table 5.3.*

The government points to the tense social and ethnic situation in Central Asia which had already given rise to two major incidents in the Fergana Valley already in the Soviet period on the eve of reforms. Behind these inter-ethnic conflicts lay a number of long-standing economic problems, namely, rapid growth of population and of the working-age population, falling real incomes, hidden unemployment and an acute shortage of irrigated land. The present war in Tajikistan also reflects long-standing economic problems, exacerbated by the end of the USSR and the ensuing economic crisis. These situations have shown that urgent measures may be required to restore peace and to dilute the strength of inter-ethnic feelings, "warmed up" as they are by economic pressures, before the situation gets out of control.

A major stated goal of the present stage of development is further democratization of the state and society. All three branches of government, legislative, executive and judicial, have reforms on the books which aim to strengthen the legal framework so that the country becomes an *etat de droit*, a law-governed state.

At the first stage of the transition priority was given to the maintenance of social peace and stability. This was felt to take precedence over the creation of a multi-party political system. In Uzbekistan social peace was maintained by ordinary 'law and order' measures. At the same time, development of parties and quasi-parties as has taken place in other states of the CIS was not permitted in Uzbekistan because it was feared they would be likely to act in ways detrimental to keeping the social peace.

Now that a reasonably stable social peace has been maintained for several years, one that is underpinned by a basically improving, if a still very difficult, economic situation, the Government is of the view that conditions are riper for the formation of political parties. It is underlined that the emerging parties need also to promote social cohesion and respect for democratic norms in their platforms and do not to foment ethnic or religious divisions within society. Most important is that they commit themselves to zero tolerance for violence.

Special sections of the 1997 Human Development Report are devoted to culture and education. Our premise is that the greater the population's score on the various measures of education, tolerance of diversity and spiritual development, the lower the probability that small, isolated breakdowns in social cohesion will escalate and block the transition to a more sustainable and effective market system.

Special problems exist in the Uzbek labour market. Though officially registered unemployment remains negligible, hidden unemployment or underemployment is a serious problem, especially in agriculture, but also in industry and construction. The scale of the phenomenon is such that postponing the release of surplus labour is affecting improvements in labour productivity and international competitiveness. In the end, this featherbedding will delay economic growth and the human development connected to it. At the same time, the transition from hidden unemployment and underemployment to open unemployment is inevitably a painful process with many political and social implications. It is desired that the government take measures to stimulate employment of released labour, possibly by instituting labour-intensive public works programmes, possibly by making it easier for the private sector to set up small businesses that use labour intensively.

A minimum of social cohesion is a precondition for economic reform. The relationship is one of reciprocity and feedback, however. Improvements in the economic, spiritual, cultural and legal sub-indices of human development promote cohesion in their turn, both individually and together. These issues are further discussed in the present Report.

Insert 1.1. Social cohesion, social deprivation and its consequences

Factors promoting social cohesion	Kinds of social deprivations	Types of social conflicts and con-, sequences
Absence of significant income differentiation	Poverty and its distribution	From apathy and lack of motivation to strikes, incidents, riots, etc. Delays in human development.
Equal statutory and <i>de facto</i> rights of all ethnic groups	Infringement of rights of national minorities	Ethnic conflicts, refugee problems, brain drain. Delays in economic, legal and spiritual development, danger of national chauvinism
Freedom of conscience	Infringement of rights of believers as a whole or of particular religious groups	Religious conflicts, civil wars, refugee problems. Delays in legal and spiritual development. Poor international reputation.
Political pluralism	Dictatorship of one party	Suppression of dissent, extra-legal possibly violent expressions of political discontent. Delays in legal and spiritual development, danger of totalitarianism.
Equal rights for men and women, high <i>de facto</i> status of women	Infringement of rights of women, low status of women	Social and familial conflicts. High birth rates, high population growth. Delays in human development, spiritual development, poor maternal and child health. Extra burden on the health, education, and transfer budgets.
Successful economic transition to a vibrant mixed economy with strong per capita GDP growth job creation	Open or hidden unemployment, high inflation, falling output and incomes, lawlessness of arrears on wages and taxes, increases in the number of poor	Social tension, emigration, delays in economic, legal, human, spiritual development, deteriorating health profile of the population
Transparent property rights to housing, businesses, land	Proizvol, uncertainty over rights, increased shadow activities, low investment by nationals and foreigners, stagnant recorded GDP, low technology transfer, probable worsening relative performance of agriculture	Delays in economic and legal development, increased corruption, increased rural-urban and regional differentiation

Absence of significant economic differentiation by region	Rich and poor regions	Increased ethnic or geographic tensions which may take on political character
Similar living standards observed in urban and rural areas	Strong, possibly growing differences in living standard between town and country	Increased social tension, migration possibly leading to shanty towns in cities
Absence or prevention of ecological problems	Ecological problems and crises having differential impact on local populations	Increased social and regional tensions; negative effects on life expectancy infant mortality; emigration possibly creating ghost towns

CHAPTER New Representative, Executive and Judicial Institutions

2.1. *New institutions needed*

State regime. In developing a theory of the state for Uzbekistan and in recommending public institutions for that state, it was thought necessary to take into consideration Uzbekistan's specific historical circumstances. In the collective memory of all citizens of the former USSR was the realization that the Soviet state, proclaimed as democratic and belonging to the entire people, was in reality a totalitarian bureaucracy centred capital and favouring the economic development of sectors of interest to it. The executive apparatus was demonstrably not the embodiment of an idealized national interest but rather a self-centred institution that pursued power and privilege. Because of its totalitarian nature there were few checks on it from other institutions, public opinion or the courts. It goes without saying that such a strongly centralized, imperial apparatus served the divergent needs of the various regions poorly, unless they happened to coincide with those of the centre. The economic policies pursued by the Soviet apparatus until the late 1980s mis-developed many industries and regions, endowing them with inappropriate, input-hungry capital stocks and transport networks and bequeathing difficult economic, political and social legacies to the successor states.

Uzbekistan established its independence to try to correct the distortions. It declared itself to be a sovereign democratic republic (Constitution of the Republic of Uzbekistan, 1992, p.9), where "the people are the sole source of state authority" (IBID, p. 10) and where "the unconditional supremacy of the Constitution and the law" is recognized. (IBID, p. 11)¹ In contrast to the communist regime, the new political regime in independent Uzbekistan aims to be ideologically neutral. It aims at universality, explicitly professing not to represent any one class at the expense of others.

In the emerging political system, it is hoped that relations between the individual and the state will take on an ever more reciprocal character, so that state and citizen are bound to one another by mutual rights and obligations. Uzbekistan has moved away from the totalitarian communist goal of taking full responsibility for the people's economic situation. Nevertheless it does accept economic responsibility for the citizenry to the extent that it aims to provide each citizen with conditions, including public services, which will help him or her to satisfy economic needs and realize his or her nature or personality.

The realization of any reform requires minimum political and social stability and a state with enough authority and political will to implement changes. It was felt in Uzbekistan, as in many other countries, that the state would do a better job of ensuring independence, building democracy and reforming the economy if the basic moral principles of its legislation and main duties of major bodies of state authority, were anchored in a constitution. Therefore among the first steps taken by Uzbekistan after independence was the adoption of a constitution - the Basic Law of the State, which provided for the formation of legislative, executive and judicial authorities and other institutions.

For many historical reasons it was decided that Uzbekistan would be a presidential Republic. The President is elected through multi-candidate general elections for a period of five years with the opportunity for re-election for another term. President Karimov was elected in 1991 and then in 1995 won a referendum extending his first term to the year 2000, so he is eligible to run again in that year for a

second term. Strong presidential rule has succeeded in guaranteeing peace, stability, civil and interethnic accord in Uzbek society, and in political and economic reforms which aim gradually to create a democratic society.

As in any modern state, Uzbekistan during the first years of independence set up three separate branches of state authority: legislative, executive and judicial. The legislative and executive authorities have appropriate central (federal) republican bodies, and local (regional city and district) bodies.

Box 2.1.

In the present Oliy Majlis, practically all deputies have higher education. Every seventh deputy has a professional degree or qualification, and 18 are academicians or doctors of science. 15 nationalities are represented. Two thirds of the deputies are under 50. There are only 16 women deputies however.

2.2. The Legislative Branch

2.2.1. Oliy Majlis (Parliament)

Legislative authority in the Republic is vested in the national representative body, the Oliy Majlis or Parliament.

Unlike the Soviet-era Supreme Soviet, the Oliy Majlis contains several of political parties.

All citizens of Uzbekistan aged 18 or over, irrespective of ethnic nationality, native language, sex or creed, can vote in the elections for deputies to the Oliy Majlis. All citizens of Uzbekistan aged 25 or over, irrespective of ethnic nationality, native language, sex or creed, can be nominated and elected to the Oliy Majlis.

Box 2.2.

During the last election to the Oliy Majlis 634 candidates stood for 250 seats. 93.6 % of registered voters took part in the voting.

The Oliy Majlis combines sessional work with the work of Committees and commissions, which are staffed by professional civil servants. To increase the professionalism and expertise of this institution, the chairman and secretary of each committee are permanent.

Since it was inaugurated in 1994 the Oliy Majlis has adopted about 250 laws. This has helped the formation of a more modern political, economic and social system for society. Due to the rapid changes in the economy and society, many of which required legislative confirmation or regulation, many laws have had to be changed;

this has affected over 30% of the original laws. The Oliy Majlis has recently created an institute to monitor current legislation and to try to ensure that new laws and amendments do not contradict each other.

Taking public opinion into account, the legislature of the republic is seeking to develop and approve laws that promote stability, civil peace and social cohesion, the economic well-being of the citizens, and the integrity of the society.

Parliament, is supposed to give most attention to ensuring the rule of law, promoting public order and maintaining the constitutional rights of every citizen, irrespective of ethnic, racial, religious or linguistic status.

The creation of the Oliy Majlis was designed to mark a new stage in the development of Uzbekistan as an independent state. The laws adopted by the Oliy Majlis have helped promote a fairly successful

stabilization of the economy, greater freedom for business, improved protection of the rights and freedoms of the individual, and an increase in the respect and authority accorded Uzbekistan abroad.

Box 2.3.

Of the 250 deputies, 122 or about 49% represent the interests of local executive authority - regional, urban and regional khokimiats. 67 deputies, 26% of the total, represent the National Democratic Party of Uzbekistan (the former Communist Party of Uzbekistan).

47 deputies, about 19%, come from the "Adolat" ("Fairness" or "True Path") Party.

14 deputies, about 6%, represent the "Vatan Tarakkiy" ("Development of the Motherland") Party.

2.2.2. *Basic principles of legislation*

At the beginning of the reform period, it was decided that thorough-going legal reform was a pre-condition for the success of the reforms themselves.

The legal reform included provisions that aimed at:

- Creating for economic, political and social reform.
- Implementating the principle of separation of powers: legislative, executive and judicial;
- Setting up basic institutions of state power and government administration that would be capable of establishing a legal framework appropriate to the new economic conditions;
- Creating of an effective system of law-enforcement bodies, whose mandate would be to protect the inviolability of the law;
- Raising the legal awareness and "culture" of the citizenry;
- Ensuring the full protection of human and civil rights the non-oppressive maintenance of social cohesion, international harmony, peace and stability.

In the course of legal reform, the ideals of establishing law-governed state were stated to be fundamental. The law was to rule all spheres of public life and to govern all activities of the state, its bodies, all citizens and their associations. The inviolability and priority of the rights and freedom of individuals, mutual responsibilities between state and citizen, was to be established.

The creation of a legal framework has acted as a nucleus for reforms in all spheres of society. This is understandable because in a genuine law-governed state the law itself becomes the main instrument for the promotion of social and economic development via its role in resolving conflicts.

Box 2.4. Committees of the Oliy Majlis

Committee on the budget, the banks and financial questions (19 deputies)
Committee on economic reforms and development of business (20 deputies)
Committee on legislation and on judicial & legal questions (18 deputies)
Committee on international and inter-parliamentary affairs (14 deputies)
Committee on science, education, culture and sport (18 deputies)
Committee on industry, energy, transport, communications and services (21 deputies)
Committee on agriculture, water management and food (19 deputies)
Committee on labour and social protection (16 deputies)
Committee on the environment and the protection of nature (17 deputies)
Committee on construction, housing and municipal services (11 deputies)
Committee on defence and security (12 deputies).

The work on the formation of a legislative skeleton for Uzbek reform is complex:

First. During the Soviet period, legislation in important spheres of public life was constitutionally in the purview of the all-Union bodies of state authority and economic administration. An overwhelming majority of the laws which regulated economic, political and social relations in the regions was adopted and amended by the Supreme Soviet of the republics and local authorities.

During the early stages of the formation of a national corpus of legislation, Uzbekistan was faced with a lack of legal drafting experience legislation and a dearth of legal professionals.

Second. It was desired to ground the new legislation in non-Soviet fundamental principles as soon as possible. These aimed to enshrine Uzbekistan's political independence and to establish a legal framework for the state and a market economy.

Third. The new legislation also aimed to draw on the noblest traditions of the people making up the new nation, to reflect the best of the country's spiritual heritage and its current spiritual values, and to conform with modern social thought and international legal practice.

Fourth. It was desired to promote political and economic conditions that would ensure the rule of law, restore its authority and gain respect from citizens and public officials. Given the Soviet heritage of disrespect for the law, building respect for the law and the legal system have turned out to be more problematic than hoped.

In view of the above-mentioned factors, legislative strategies were formulated.

Their basic goals were:

- To adhere fully to the principle of separation of powers, formation of strong political, judicial, legislative authorities.
- To raise the intellectual standard of legislation so that laws would be consistent and accepted as legitimate.

The great volume and novelty of work involved in drafting these laws led to some foreseeable problems. In particular, the laws passed in the early stages tended to be mere declarations and grandiose statements of principle with no provisions for their implementation. First principles were being worked out when the basic institutions were not yet in place. To try to remedy this situation, Civil, Criminal and Labour codes, a Penal & Procedural code, and other codifying acts were adopted during 1994 and 1995.

Box 2.5. Structure of legislation

The new system of legislation has the following structure:

1. Acts fixing Uzbekistan's political independence and state sovereignty.

These include the Resolution of the Supreme Council of UzSSR from 31.08.91 "On proclamation of state independence of the Republic of Uzbekistan"; the Laws "On the fundamentals of state independence of the Republic of Uzbekistan" of 31.08.91; "On elections to the Presidency of the Republic of Uzbekistan" of 18.11.91; "On Offending the Honour and Dignity of the President" of 1991; "On the State Emblem of the Republic of Uzbekistan" of 02.07.92; "On citizenship of the Republic of Uzbekistan" of 02.07.92; and other laws.

2. Laws on the executive and on government administration. These include the Laws "On improving the structure of the executive and regulatory authority in the UzSSR and on modification and additions to the Constitution (Basic Law) of the UzSSR" of 1.11.90; "On the fundamentals of state independence of the Republic of Uzbekistan" of 31.08.91; "On the Cabinet of Ministers of the Republic of Uzbekistan" of 06.05.93; "On state authority in the regions" of 02.09.93; "On bodies of citizens' self-management" of 02.09.93; "On the Oliy Majlis of the Republic of Uzbekistan" of 22.09.94 and other laws.

3. Laws to promote economic reforms. Laws on property relations which are now based on the principle of multiplicity of forms of property; the creation of a banking and financial system appropriate to a

market economy; promotion of enterprise and private initiative; development of a mixed economy, etc. One of the Government basic goals, namely, to give priority to the economy over politics, explains the significant role of this group of laws.

4. Laws to create and improve the judiciary and legal system. Among these are the Laws "On constitutional supervision in the UzSSR" of 20.06.90, "On the Office of the Public Prosecutor " of 09.12.92; "On the Constitutional Court of the Republic of Uzbekistan " of 06.05.93; "On courts" of 02.09.93; "On the institution of legal and social protection measures for the militia" of 31.10.90; "On the Bar" of 01.96 and others.

5. Laws to further the democratization of public life, freedom of association, a freer press, and to improve human rights. These include the Laws "On public associations in the UzSSR" 15.02.91; "On mass media" of 14.06.91; "On freedom of conscience and of religious organizations", of 14.06.91; "On political parties" of 06.12.96.

6. Laws on defence and military construction: "On defence" of 03.07.92, "On general conscription and military service" of 03.07.92; "On alternate service " of 03.07.92; the Resolution of Oliy Majlis "On military doctrine", etc.

One of the most notable features of the legal scene Uzbekistan in is that a very large proportion of rules and regulations originated as resolutions and decrees of the Cabinet of Ministers and regulations set by various ministries and departments. These executive bodies make rules, set precedents and adopt norms which may impinge on, water down, make exceptions to or even contradict the letter or spirit of laws already adopted. The Government says it will do something about this, as the overlaps and inconsistencies are hampering the establishment of new businesses, slowing privatization and putting off foreign investors.

The achievements to date, together with the more experienced legislators, lawyers and para-legals now available, have allowed Parliament to set out an ambitious legislative programme for 1996-1999.

One theme will be economic reform. Tax and Customs Codes, laws "On Public Finances of the Republic of Uzbekistan", "On the budget system of the Republic of Uzbekistan", "On centralism"; "On tariffs and customs duties"; "On mortgages" and other important laws designed to improve the working of the economy, specify property rights, and clarify the revenue-raising powers of the state are expected to be adopted.

Over this period it is also hoped that laws on the Family and on Housing, Codes of Civil Procedure, Codes of Economic Procedure, laws "On the implementation of decisions of the courts", "On the militia" and "On internal troops" will be adopted, as well as other laws directed at promoting the judiciary.

It is projected that dozens of laws affecting the various branches of the economy, national cultural policy and foreign policy will be adopted.

2.3. The Executive Branch

The executive authority in the country is represented by the Cabinet of Ministers, headed by the Chairman of the Cabinet of Ministers, who is the President. The activities of the Cabinet of Ministers are organized by the Prime Minister, who is appointed by the Oliy Majlis upon nomination by the President.

The representatives of the national executive are the Chairman of the Cabinet of Ministers in the Republic of Karakalpakstan, and the khokims at the regional, city and district levels, who oversee the activities of the khokimiats (local administrations).

Changes in the government structure. Changes in the structure and functions of the state have affected the executive branch. It was assumed in Uzbekistan that a strong executive would be necessary, both because it was traditional and because of the large number of desired changes to the legal and economic system envisaged in a relatively short period.

The Soviet system was characterized by multiple layers of authority. For example, on the territory of Uzbekistan there were 28 branches of all-Union ministries and 17 union-republican ministries and departments. These ruled without any consultation with local bodies. They ran policy, the economy and the educational system. They also controlled most of the property of the republic, and transferred investment resources and exports out of Uzbekistan to other republics and vice versa. In substance, the local ministries represented the federal USSR on Uzbek territory, so that republican structures gained little experience in managing the economy.

Changes since independence have created demand for several new bodies that did not have republican analogues during the Soviet period. These include first, the Ministry of Defence and the Committee of State Security (SNB), the analogue to the former USSR KGB. Second, they included new agencies needed to handle stabilization policy, manage a modern fiscal and monetary system, and carry out the transfer of property out of state hands. These include the Central Bank, the State Tax Agency, the Committee on State Property, etc.

Another change was the revival of the institution of the **khokim** or regional governor. In ancient times the ruler of the Uzbeks was viewed as the guarantor of stability and well-being, as "a shield for the people and the country". (Alisher Navoi. Collection of works in 10 volumes. Vol. 7, T.1970. page 20) The most esteemed ruler was the one who was both strong and fair, who "protected and provided for the welfare of the population" (IBID., Vol.10, page 34) and acted as "a shield of justice". (IBID., Vol.1, page 234) Thus, paradoxical as it may seem, the restoration of khokimiats was not perceived by the public as a return to totalitarianism. Rather, the institution was viewed largely as a strengthening of the rule of law.

In comparison with the former executive committees (ispolkoms) of the district and municipal communist authorities, the khokimiats are leaner and more flexible. The staff of the khokimiats is more technocratic and professional.

During a transition from a command-administrative system, the division of authority into state and non-state is not fixed but evolves with the course of reform. In Uzbekistan much remains in flux and awaits the development of autonomous institutions of civil society and a market economy. The state's obligation must be to set no obstacles in the path of their development.

The de-partyization of the central executive and representative branches of government has to a certain extent liberated public servants from the yoke of communist ideology. However their long careers under the old system have inevitably left an imprint on their expectations, habits and mentality. Political pluralism is enshrined in law. But much remains to be done if one group or elite is not to succeed in putting its interests before those of the nation or society as a whole.

2.3.1. Regional and local government

Councils and representative bodies. As social science and international practice demonstrate, states need a mechanism with which to regulate and balance out the various relations between central and local authorities. The ideal is to provide an optimum division of labour between central and local authorities, and to smooth transfers of funds and exchanges of services between the various levels.

Some state functions must necessarily be handled at the centre. If they are not, there is a risk that there will be no genuine state and no convenient unity of legislation. This would cause the polity to miss out on benefits that derive from economies of scale, and on benefits that come from having nation-wide defence, monetary, fiscal, social and technology policies. It would have few mechanisms or sources of finance with which to promote regional equality through transfers.

However, centralization has its limits. The excessive centralization typical of the Soviet command-administrative system produced a whole complex of negative phenomena.

One way to prevent inefficient and oppressive excesses of centralization is to work out a system of political, economic and legal guarantees that protect regions.

Political guarantees include strict observance of the principle of the separation of powers, encouragement of democratization at all levels of society, and expanding of local self-government the powers.

Economic guarantees include legislation that defines and protects the sanctity of private, cooperative, district and municipal property. Other legislation protects the right of grass-roots organizations, NGOs and for-profit advocacy groups to form, register, publicize their activities, and deliver services. Other measures include decrees and resolutions from executive and administrative organs which make life easier for local businesses to register, operate and comply with regulations. Also helpful are public relations and education campaigns which explain, via well-chosen media, what a mixed economy is and how competition works to reward firms who satisfy the consumer and punishes those who do not.

Legal guarantees derive from observing the principle of legal supremacy, from modernizing current legislation and from adopting the principle that only those powers should devolve to the central government which are best handled at a national level.

In addition to the Oliy Majlis, which is a legislative body at the central level, other representative bodies include: the Jukorgy Kenges of the Republic Karakalpakstan and the regional and district councils. Local representatives, like those to the Oliy Majlis, are directly elected on the basis of general for five-year terms and secret elections by direct voting.

Local authorities are supposed to deal with the issues of economic, social and cultural development of their areas; they write local budgets, impose local fees and taxes and provide services of the law, the police, and public safety. However there remain several inconsistencies of jurisdiction, points of confusion and duplications of function between the federal and the regional authorities.

Uzbekistan has a special institution of local self-government, the makhalla. In both its historical and modern understanding the makhalla is an institution that serves people who are interconnected by place of residence, tradition, and legal, economic, neighbourly and family relations. As in the makhalla of long ago, the modern mahalla takes into account systems of ideology, moral traditions, mentalities, and public opinion. It mediates between the state and the family, religious groups, and cultural and educational organizations,

Despite the significant amount of work carried out by the makhallas, for many years they remained subordinate and marginal elements in the system of district and urban government.

At present the makhalla committees do the state's work in that they maintain discipline and order, especially in critical situations. They provide for the settlement of disputes, and mediate economic and everyday difficulties. They carry out a number of functions which in other countries are usually carried out by the local or federal organs of state authority and law enforcement. Therefore the raising of their profile, which has been promoted since independence, was regarded as one of the important steps in the formation of a flexible, mobile and effective executive authority, a sort of half-way house on the way towards more formal types of popular rule.

Makhalla committees have proven themselves well suited to delivering a number of local public services. They resolve civil, financial and ethnic disputes between community members, foster the development of small enterprises and the infrastructure needed by the local economy, set up special charity funds and select which households are most in need of benefits. They also deliver other types of social, housing and communal services, run cultural centres and watch over the 'moral and spiritual climate' in the district.

There are at the moment more than 10,000 makhallas in the Republic; practically everyone belongs to one. New urban high rise districts and zones of new housing construction also have been endowed with makhallas.

2.4. The judiciary

The judiciary of the Republic comprises the Constitutional Court, the Supreme Court, the Supreme Economic Court, the Supreme Court of the Republic of Karakalpakstan, the regional, district and city courts and economic courts.

The Constitutional Court considers cases on the constitutionality of legislative acts and decisions of the executive.

The Supreme court of the Republic of Uzbekistan is the highest body of the judiciary in civil, criminal and administrative proceedings. The Supreme Economic Court covers disputes arising in the economic sphere.

As soon as Uzbekistan gained independence, the problems reform of the Uzbek judicial and criminal justice systems became evident.

Firstly, under communism the courts and criminal justice authorities represented a rigidly centralized, deeply ideologized system unsuited to the new institutions.

Secondly, having set the goal of building law-governed state, it was necessary formally to provide for the independence of the courts and the judiciary.

Thirdly, it was desired to use the judicial system as an agent and guarantor of reforms to be implemented in the economy, the political sphere, etc.

In the Constitution of Uzbekistan of 1992 other principles of the judiciary were secured, namely, the inviolability of judges, free and open access to justice and court hearings, the binding force of judicial decisions and the right to advocacy. Court proceedings in the Republic of Uzbekistan are conducted in the Uzbek or Karakalpak languages or in the language of the majority of the local population. Everyone has the right to use an interpreter and address the court in his or her native language, even though Uzbek is the official language of the state.

The supreme judicial authority within the civil, criminal and administrative court systems is the Supreme Court of Uzbekistan. The judges of the Supreme Court cannot be removed by the President without approval by Parliament. The Supreme Court has the right of oversight over the Supreme Court of the Republic of Karakalpakstan, and over regional, urban, district and military courts.

The Constitution provides for a system of economic courts. These include the Supreme Economic Court of the Republic of Uzbekistan, the Economic Court of the Republic of Karakalpakstan and regional economic courts.

There have been some changes in district and urban courts. Judges now sit on panels in administrative cases where in the Soviet period there were often just 'people's assessors'. Military courts have been established along adversarial lines (with prosecution and defence), and include the Military Board of the Supreme Court of the Republic, the military court of the Armed Forces and military courts of garrisons.

The most significant new acts among recently adopted pieces of legislation are the Criminal Code (22.09.94), the Civil (21.12.95 and 29.08.96), the Labour Code (21.12.95), the Code of Criminal Procedure (22.09.94), the Code on the law of the Air (07.05.93), and the Code of Economic Procedure (02.09.93) and the Code of Administrative Responsibility (27.03.94).

For the coming judicial and legal reform is supposed to ensure a reorganization of the activity of judicial bodies. The basic themes is the creation of effective legal mechanisms which would provide for:

- Expanded judicial protection. Any dispute of a legal nature can be solved in court, but a number of laws still preserve several spheres of relations where, if there are disputes, one must go through administrative channels.
- Conditions for true adversarial competition between prosecution and defence during the judicial process. This principle is fixed in legislation, but needs to be better implemented.
- Differentiation and individualization in defining the punishment for a crime. It is commonly known that in some cases there has been a tendency to excessive strictness in meting out punishment, e.g. by giving those who have committed minor infractions maximum sentences.

Punishment should be differentiated to take into consideration not only the seriousness of a crime, but also the character of the criminal and individual circumstances of the case: e.g. the age and sex of the accused, whether they are likely to change their ways without undergoing deprivation of freedom, etc.

- development of legal mechanisms to protect basic human rights at all stages of the criminal process. A great number of complaints from citizens have been submitted to the authorities and non-governmental human rights groups about arbitrary arrests on false charges, regular long detention in custody without formal accusation, etc.

In April 1996, the Kengash of the Oliy Majlis, ratified a programme of further development of judicial reform in Uzbekistan.

The purpose of the programme is to deepen democratic transformation in the country out to encourage to think citizens of the courts as impartial protectors of their civil and human rights, freedoms and interests.

2.5. Democratizing the Political System

The political system of the Republic of Uzbekistan is founded around the idea of building an independent state with a great future, one in which all civil and human rights and freedoms of the individual and the press are observed, the peace is kept, and the people enjoy widening opportunities for human development.

The individual's needs, interests, life, activity, mentality, customs spiritual values.

The functioning of Uzbekistan political system of is determined in the last analysis by political activity undertaken by individual citizens. The citizen does not exist for the political system, but vice-versa: the political system should emerge from and respond to the preferences and choices of the individual , balance his or her needs and preferences against those of other citizens, and alter course in response to feedback from below. Only such a political system will be felt to have complete democratic legitimacy.

Uzbekistan political system aims to achieve productive interaction of all constructive political forces within a strong system of state authority and to ensure the smooth functioning of both institutional and hierarchical structures.

Box 2.6. International legal conventions which Uzbekistan has adopted

By 1996, Uzbekistan had adopted 19 of 22 basic international acts adopted in the world. They include the Universal Declaration of Human Rights; the International Act on Civil and Political Rights; the Basic Principles of Independence of Judicial Bodies; the Convention on legal aid and legal relations in civil, marriage and criminal cases, the Vienna Convention on international contract law, the UN Convention on control of narcotic and psy-chotropic substances ", Convention on crimes and other acts committed on board aircraft, signed in Tokyo in 1963 " (06.05.95), the Convention against torture and other severe, inhuman or humiliating treatments or punishments". The Hague Convention on civil process", the New York Convention on recognition and enforcement foreign arbitrage awards and the UN Convention on international contracts of purchase and sale. Uzbekistan also has concluded many bilateral international contracts on legal aid.

The state and civil society. The effectiveness of interaction of the state and civil society is determined by the richness of the network of civil institutions and by the degree of public trust and support enjoyed by state authorities. While at the first stage of reforms, a high degree of centralization provided social stability and sufficient political will to keep reforms on track. It is expected that as reforms deepen and take on their own momentum, a high degree of centralization will emerge new interactions which will reflect society's democratization and the liberalization of the economy.

An increase in the creativity of the Uzbek political system may come through an increase in political freedom, local government, non-governmental organizations, political parties, public organizations, unions, the press, etc. Reform of the administrative hierarchy is essential, so that the higher levels listen and respond to feed back from lower levels.

The basic directions of democratization of state and society at this stage of deepening reforms are as follows:

- Continued attention to the problem of ensuring the de facto as well as the de jure separation of powers;
- Gradual transfer of powers and responsibilities for state management from central ministries, organs and government departments to units at regional level, and from them to local levels;
- Transfer of functions and powers of state governance from state bodies to bodies of public self-management,
- Ongoing streamlining of the state apparatus in line with efficiency, which will mean cuts in the number of the employees in the state bureaucracy, rises in the productivity and purposefulness of the civil servants who remain, and a cut in overall state expenditure;
- Raising the profile and efficiency of the organs of regional and local administration, the khokimiats, by giving them more revenue-raising powers and greater control over expenditures; they should be allowed to manage, lease, or dispose of municipal property in line with local needs.
- Improving the capacity and incentives for the central state bodies to make well-informed strategic decisions in line with best international practice; to define sustainable political and economic strategies that will ensure stabilization and contribute to the structural transformation of the economy; to pursue policies that will increase economic growth, employment; to institute reforms that will raise the efficiency of the state apparatus in fulfilling these aims.
- Increasing the role of local bodies, such as the makhalla, in resolving of basic-economic problems in the community and encouraging the revival of cultural and historical traditions a sense of neighbourhood, mutual assistance and acts of charity towards the less fortunate.
- A redirection and, budget resources permitting, an increase in the real level of funding for major social, educational, environmental and health programmes and initiatives which should help realize the strategic objectives of citizens' spiritual development and improvements in their health and living standards;
- In this connection, support for the founding, registration and ongoing operation of cultural centre for non-indigenous peoples and ethnic minorities;
- State encouragements for the creation, registration and ongoing operation of associations, societies, lobbies and self-managed professional organizations. Many unnecessary restrictions have limited the growth of such institutions of civil society in recent years.
- Support for youth and women's organizations.
- Encouragement of institutions that promote both the economic and spiritual development of individuals, their psychological, cultural and physical potential. Translation of western psychological self-help and family-therapy literature into forms relevant to Uzbek society.

A society which encourages such a diversity of civil institutions and understands how they complement rather than compete with central government bodies should be more creative and more successful at promoting economic growth and social harmony.

2.6. Institutionalising human rights

During the first five years of independence, initiatives aimed at creating an institutional basis for monitoring the situation in the Republic with respect to human rights and freedoms and civil rights were undertaken. For the first time, the government submitted a human rights observance report of its own to the UN Centre on Human Rights. Since September 1996 the UN has been setting up programmes to support democratization and the monitoring of human rights observance in Uzbekistan. The UN, the Organization for Security and Cooperation in Europe and other international organizations have opened offices in Uzbekistan (some with delays) and have begun to operate in the country.

The institutional framework for assuring respect for human rights consists of the country's laws, decrees, regulations, administrative procedures political will in concert with international institutions and enforcement mechanisms. All these together work to bring about a situation in which the rights of the individual are respected. These rights include the rights of those accused of crimes, infringements to habeas corpus and a fair defence, and the political freedoms of assembly, association, speech, the press, and so on. The state can ensure human rights by:

- a) Passing laws and regulations which meet international standards on human rights and which set up or permit the establishment and funding of independent judicial institutions which can defend them.
- b) Entering into the international system of conventions and laws that govern states' obligations and institutional mechanisms that concern human rights.

One of the first acts of independent Uzbekistan was the resolution of the Supreme Soviet to ratify a "Declaration of human rights and freedoms" (30.09.91). Thus from the first days of its existence the young state unequivocally stated that in the "state - individual - society" triad the primacy and the priority belongs to the individual; that the interests, life, freedoms and dignity of the individual should take precedence and be the sole purpose of government and human development. This provision has been developed in detail in subsequent national legislation and, in the Constitution of Uzbekistan.

The Constitution mentions a range of personal rights and freedoms; the right to life, freedom, personal inviolability; the right to protection against attacks upon personal honour, dignity or reputation; the inviolability of the home. Each citizen and person has the right to free movement on the territory of the Republic entrance and departure from it; the right to freedom of opinion, speech, information, religion and conscience. These legal principles, norms and guarantees have been developed in a number of subsequent laws and acts based on the precepts outlined in the Constitution.

Freedom of information and its untrammelled distribution via the various mass media is a necessary condition for the establishment and preservation of human rights. Citizens can only participate creatively in public life when they are free to speak, associate, assemble and gather and transmit information and ideas by word, in meetings and informal gatherings, in public speeches, on radio and television, in writing, through the post, in the press and via electronic media etc. All these freedoms must first be guaranteed in law and then respected in practice. The law provides that each citizen has the right to research, to receive and to distribute all kinds of information with the exception of information directed towards overthrow of the existing constitutional regime. There are other minor legal restrictions concerning national security.

These principles have been embodied in the law "On the mass media", "On the protection of state secrets" (07.05.93), "On information" (07.05.93) and elsewhere. But much still needs to be done to ensure an independent, confident press, which in practice remains constrained by official censorship and self censorship.

A multi-party regime, the presence of various political parties, the freedom to associate and form groups and parties are also fundamental signs of democracy and guarantors of an open society.

Given Uzbekistan's complex situation as a country in transition from a command-administrative to a mixed economy, a law "On the employment of the population" was passed. In December 1995 a new Labour Code of the Republic of Uzbekistan was adopted setting out employment rights.

Rights or privileges provided by all modern economies, even the most 'free market' ones, include rights to free primary and secondary education. Higher education and pre-schools may also be free or highly subsidized if the society sees fit to make such provision.

Since independence, Uzbekistan has stated its aim of trying to provide certain levels of social protection for its people with a view to promoting their economic and human development. There have been a number of laws and programmes to help those with low incomes, the disabled and other people. An important aspect of the socio-cultural rights of the citizens in Uzbekistan are rights to reproduce the achievements of culture, and the freedom of technological creativity.

Thus Uzbekistan has laid down a legislative basis for the protection of human rights and formed State and plus non-state bodies which might contribute to that goal. But much remains to be done to turn this legislation in to reality.

2.7. Parties and movements

Political parties. A multiplicity of political parties is necessary to the functioning of a democratic civil society.

For parties to promote economic and spiritual development and serve the needs of civil society, there must be a genuine plurality of them. In considering parties and movements in Uzbekistan, we must overcome two stereotypes: first, that the existence of a large number of parties in the society acts only to destabilize it, to divide people rather than give them a common purpose and to waste the time of public officials in quarrels over small differences of policy or ideology. Secondly, that the greater the number of parties, the greater the democracy and thus the faster the spiritual and economic development of the society.

In countries with complex ethnic or economic legacies, the fear of losing social stability is very real to the leadership. Ongoing shocks to society may lead to a buildup of pressures which increase the potential for extremism, fundamentalism, terrorism, unrest, inter-ethnic and civil conflicts. Such countries wish to avoid the sort of situation in which too large a number of parties, none of which has a national reform programme, each seeks to represent a very narrow constituency, such as a religious or ethnic group. If such a myriad of parties were allowed to enter the political arena during the setting up of the basic system, none would have a majority. Coalitions would be necessary, but would be shifting and unstable, and there would be a risk of deadlock and paralysis in legislation and the implementation of policies. The balance of power on various bills might be held by parties with small constituencies and extremist views. Such fragmentation would certainly impact on the creation of a national political will and national social space.

For this reason, it is sometimes felt in such societies that a condition for the legitimacy of political parties and movements should not be primarily their opposition to the party in power (or their blind support for it), but rather that they present truly alternative policy programmes that appeal to many groups and strata in the population. Such parties or movements may interact with the party in power in order to induce it to be more responsive to the interests of various social groups.

This situation exists in Uzbekistan. During the first stage of reforms, the country's strong state apparatus guaranteed stability and social peace. Now Uzbekistan must develop a viable multi-party system to articulate and represent society's options for the next stages of reform.

The Uzbek government was very cautious during the first stage, when numerous disparate parties and movements sprang up from the fragments of the CPSU in Russia and elsewhere in the CIS. On one hand, policy and programme demands of some of the parties which appeared at that time in Uzbekistan reflected the interests of all the citizens of the newly independent state (for example, the declaration of independence and state sovereignty, making Uzbek the state language and Russian the language of inter-ethnic communication, etc.). On the other hand, the vagueness of some of the party platforms did not inspire confidence. Worse was the intransigence and ill-advised moves of some of the parties, including sympathy for left-wing extremism and religious fundamentalism. This led the Government to ban them and to take other preventive measures. The maintenance of social stability in that period was the top priority, rather than the creation of a multi-party system.

Because the Government believed that they were putting their factional interests above the national interest, the "Erk" (Will) party and the "Birlik" (Unity) movement were repressed and most of their leaders driven into exile, though Erk's candidate for the presidency in the December 1991 elections had polled 12% of the vote. Erk remains technically legal, but has been largely inactive since 1993. Birlik was not re-registered under new regulations introduced in 1993. The Government has also suppressed religious based dissent.

Today, when reforms in Uzbekistan are beginning to show results and the threat of internal social instability has receded, a multi-party system is beginning to develop.

The most numerous party by membership is the National (Popular) Democratic Party of Uzbekistan (created on November 1, 1991 out of the old Communist Party, and boasting about 430,000 members). It professes to represent the interests of all citizens of the country rather than just workers and peasants as under communism. The party unites a significant number of civil servants, the heads of many enterprises, a number of well-known businessmen, managers, a significant fraction of young people, scientists, teachers, doctors, etc.

The party "Vatan Tarakiety" ("Progress of the Motherland or National Progress") was formed in the spring of 1992 has over 34,000 members. The constituency of the party is the intelligentsia, entrepreneurs and young people, who are attracted by the ideals of national unity and liberalism of the party's founders.

In the constituency of the social - democratic party "Adolat" are found members of the scientific and technical intelligentsia and employees of state structures. The party professes social-democratic ideals believes in principles of social justice.

On May 25, 1995 the first constituent congress of the democratic party "Milliy Tiklanish" ("National Revival") was held. On May 27, 1995 the constituent congress of the political movement "Khalk Birligi" ("Unity of the People") also took place. As these parties and the movements are still embryonic, it is too early to judge their place and importance in the Uzbek political system.

The new parties and movements are still shy about publicising their ideas on the political scene. For this there are objective reasons:

Firstly, all political parties have entered the political arena during the initial stage of the formation of the political system.

Secondly, their newness is reflected in the insufficient degree of overlap between their theoretical principles and their practical activities. Comparison of their official declarations and what they do in practice shows a huge gap.

Thirdly, the new political parties have not yet developed clear two-way communications with the social constituencies they have chosen for themselves.

The most important reason for the weakness of political parties of Uzbekistan is that the process of identification of interests of the various groups in society has just begun. At the same time, encouraging of new parties to mature is not in the interest of the governing party, is not practical and could damage on still-fragile social cohesion.

Other institutions of political expression. Parties in Uzbekistan are not the only intermediary between the state and civil society, Similar functions are carried out by other components of the political system, which are not, however, exclusively political. These may be trade unions, non-profit making organizations, cultural centres, professional associations and other associations, non-governmental organizations, the mass media, labour collectives, etc., which in a modern state are a vibrant part of civil society.

In the republic 200 non-governmental organizations have been registered, of which more than 70 are national cultural centre and more than 20 funds and charitable organizations.

The study of the Uzbek experience of political reform during the transition period allows us to draw several conclusions:

- In the transition period between totalitarian and democratic societies, political stability can assist effective reforms, especially economic, but also political and social.
- The citizens of Uzbekistan tend to hold traditional views of authority and of society. The government has therefore set a slow pace of change, as this is in basic conformity with society's expectations. A fast rate of social change could lead to unpredictable results, less social cohesion and delays to economic development. It would at any rate be unpopular in this relatively slow-moving eastern society.

- Only a relatively well-educated populace can be guaranteed to use democratic political freedoms wisely.
- It is hoped that Uzbekistan's combination of democratic institutions Parliament, an (at least nominally) independent judiciary, the prospects for the development of a genuine multi-party system and a strong presidency, will serve as an effective means of endowing the country with a political system able to solve the tasks of transition;
- The development of democracy in Uzbekistan takes into account both the difficult political situation in the Central Asian region and neighbouring states and the interests of Uzbekistan's citizens in the economic, spiritual, legal etc. aspects of their human development. The state has a dual objective: the creation of a powerful independent state and the transition to a sustainable and 'civilized' market economy.

The main conditions for the success of these processes are peace and stability (social cohesion) and a well-thought out, consistently implemented sequence of economic reforms.

CHAPTER The Role of the State in Economic Reform

3.1. Establishing a proper legal framework for an economy in transition

The unifying theme of economic reform in Uzbekistan so far has been the desire to endow the system with the main institutions of a democratic, mixed market economy. This has been a complex process.

First. The economy of Uzbekistan during its 70 years as a republic of the USSR was controlled by economic and civil legislation and planning decisions determined at the all-Union centre.

Second. Soviet economic legislation had to be comprehensively revised in order to regulate the very different categories of ownership and mechanism envisaged for the transition. Thus, it was necessary to design most legislation from scratch, drawing on international practice and Uzbekistan's historical and cultural traditions.

The basic principles of pro-market legislation are anchored in the Constitution of the Republic of Uzbekistan. These include equal legal treatment for all forms of ownership, the protection of private property, support for the principles of decentralization, competition, de-monopolization and the economic and legal autonomy of firms.

The constitutional principles have been further developed in more than 100 laws, which can be divided into the following basic groups:

1. Laws defining the principles of state management of the economy, state property, on the distribution of powers between central, regional and local governments;

laws that aim to set up institutions to regulate the money supply and oversee banks that allocate credit; laws on taxation, insurance, real estate, public investment funds, foreign exchange transactions, government bonds and other financial instruments.

2. Laws on property, ownership, rights to use, sale, transfer, mortgage, alienation, bequest, etc. The laws "On property", "On land", "On decentralization and privatization", and others, have created a legal basis for private property, for decentralization, for the privatization of small, medium-sized and large state enterprises and the establishment of private or mixed enterprises.

3. Laws that put in place a legal framework for the creation and functioning of the market economy. These include the laws "On enterprises", "On cooperation", "On dekhkan farms", "On economic societies and companies", "On banks and banking", "On stock exchanges and exchange activities". These have

created basis for the formation of diverse kinds of enterprises: leased, joint-stock farmers' entities, limited liability companies and partnerships, and new ways to spread risk in investing savings, such as public investment funds. Such laws and decrees have helped to begin to create legal conditions for the emergence of a class of proprietors, the development of small and medium-sized businesses, the promotion of some kinds of enterprise, the development of a limited market in securities and public investment funds, and so on.

4. Laws promoting active integration of Uzbekistan into the international community. The laws "On foreign trade activities", "On currency regulation", "On the membership of Uzbekistan in various international organizations", "On the protection of investments", and also a number of key Decrees of the President on foreign trade, on bilateral agreements with leading countries on non-expropriation and the avoidance of double taxation, etc. have created a legal basis which aims to attract foreign investment into the country.

5. Laws on social policy. The laws "On employment", "On social protection of the disabled", "On maintaining state pensions", "On education", plus a number of Presidential Decrees and Government Resolutions on these issues have allowed Uzbekistan to protect the most vulnerable layers of the population more or less successfully.

3.2. Choosing a model for economic reform

By the time Uzbekistan gained its independence, the world was already familiar with several models of national revival based on reform of the economy. Socio-political reforms in post-war Japan, the South Korean and Brazilian "miracles", the experience of Malaysia and China, Chile and Turkey have been highly effective.

The sweep of 'velvet' revolutions across eastern Europe and the emergence of 15 newly independent states from the former Soviet Union produced a whole spectrum of models of transition from command economics, ranging from the radical reform of "shock therapy" to the preservation of the "status quo" as market socialism. Despite this variety, all models of post-socialistic transformation are solely oriented to the market.

Uzbekistan was thus confronted with a wide spectrum of models to choose from for its own transition. Models that promised to turn frogs into princes if only countries would adopt the policies that together constituted a "leap into the market", promises of economists that markets would spring up quickly and iron out disequilibria and distortions and promises of immediate benefits from liberalizing enterprise, foreign exchange and trade, have so far met with scepticism in Uzbekistan. On the one hand it was assumed that the distortions inherited from the past were simply too great, so that liberalization would lead to unacceptably large shifts in the value of capital assets and labour, with unpleasant 'arbitrating' of the differences. On the other hand, neither radical reform from the centre nor radical reform from below were thought to fit with the country's 'oriental' political culture.

The choice of reform model was therefore not obvious. At the beginning of reform many sections of the population did not view enterprise or market economics as either desirable or inevitable, mainly because Marxist Soviet ideology actively discouraged positive attitudes to private entrepreneurial activity.

Secondly, it is important to stress that such principles as collectivism and helping one's neighbour, respect for one's elders and for senior and state employees, coincided in many respects with national traditions and customs of the indigenous ethnic groups in Uzbekistan and were thus respected and accepted by them.

Therefore the forced transition to a new and unfamiliar system of values that went with the break-up of the Union and the sharp initial surge of inflation, was perceived by many people as a personal drama. Worse, this supposedly wonderful new market-oriented system failed to generate enough early rewards in the form of variety, quantity or cheapness to compensate people for the income losses that came with the near-collapse of Soviet-style industries and inter-CIS trade.

For these reasons and because the rules governing the economy could not be rewritten overnight, the state has played the main role in reform, undertaking a whole series of political, ideological, economic and social reforms.

The basic strategy of reforms selected for Uzbekistan by the government is the gradual formation, of an ideologically-neutral socially-oriented market economy.

The basic directions of economic reforms are as follows:

- Decentralization and privatization of state enterprises;
- De-monopolization and the expansion of competition;
- Formation and development of private entrepreneurial activity in all spheres of the economy;
- Commercialization of the activities of state enterprises;
- Formation of a market infrastructure;
- Liberalization of prices as a condition of liberalization of internal and foreign trade;
- Reforming state ownership and institutions;
- Formation of a monetary and credit system;
- Reforming the budgetary and tax system;
- Formation of an appropriate economic and legal base.

The role of the Uzbek state during transformation is not limited to defining the direction of reforms. It also controls those reforms, ensuring future economic growth with minimal social costs during transition period.

3.3. Economic priorities in economic reform: strategies and tactics

The strategic objective of the formation of a socially-oriented market economy entails a range of economic priorities. A priority at every level is the maintenance of social protection of the population.

All economic priorities in the Republic have structural characteristics. At the first stage, these were:

- Decentralization, privatization and formation of multi-sectoral economy;
- The gradual liberalization of prices with a strict anti-monopolistic policy, the commercialization of state enterprises and the creation of a competitive environment;
- Formation of commodity markets, capital markets and labour markets;
- A change in the structure of economy. Simultaneously the Government sought macro-economic stabilization with measures to control inflation by rigid financial, monetary and credit policy, maintenance of financial stability, regulation of foreign exchange, anti-monopolist measures to prevent a significant deterioration in the living standard of the population.

The state has now defined new priorities for the second stage of structural and institutional changes, the stage of a deepening of reforms. They include:

- Overcoming the recession of industrial output and maintaining macro-economic stabilization;

- Strengthening and consolidating the national currency; the soum;
- Radical change of the industrial and technological structure of the economy;
- Decentralization of medium and large enterprises.

A major and relatively separate group of priorities at the first stage was structural reorganization aimed at overcoming the raw material oriented character of the economy and the dependence on imports of raw materials, consumer products and manufactured goods.

Uzbekistan's long-term aim is to change the structure of the economy in the following directions:

- To increase the relative importance of sectors thought to represent the country's long-term comparative advantage: petroleum and gas, energy services, gold mining and other non-ferrous metallurgy;
- To modernize and upgrade industries mis-developed during the Soviet era: scientific instruments, electrical machinery, chemicals and fertilizer, mechanical engineering, ferrous metallurgy. Some medium and high-tech branches may have import-substitution and export potential if they can attract investment for modernization.
- To add value in the mineral and, especially, in the agricultural sector by building new, or expanding and upgrading existing, processing plants. The potential for import substitution and export expansion is thought to be highest in fruit and vegetables, textiles, clothing and knitwear, and other labour-intensive branches of manufacturing.
- To become more self-sufficient in food, especially grain, by using the market to encourage a switch of agricultural resources (land, labour, water, other capital) away from cotton and towards edible crops.
- To raise productivity in irrigated agriculture by a more rational, scarcity-based allocation of water resources and measures to encourage land reclamation.
- To create jobs for the unemployed and underemployed in agricultural districts by removing barriers to the formation of small-scale, labour-intensive service, transportation and manufacturing enterprises and by encouraging migration to regions where there are more jobs.
- To develop the huge cultural and foreign exchange potential of international tourism. To upgrade international airports, improve ground transportation from airport to hotel, to renovate large hotels and allow small firms to provide competitive tourist services at key historical sites such as Samarkand, Bukhara, Khiva, Shakhrisabz, etc. To improve the quality of service in restaurants, rent-a-car bureaux, etc. To train staff in modern hotel management, languages, marketing, etc.
- To modernize transport and telecommunications to international standard. Uzbekistan's telephone system requires major upgrading.

The basic levers of structural change in the first years were state support to favoured priority projects, and a tax and customs code that aimed to make the investment regime more transparent, with a view to promoting increased foreign investment in priority branches. To this end in 1995 about 70% of all capital investments were in construction for industrial projects (in 1994, 60%). Planned foreign investments and credits made up 17% of investment including inventories in 1995, and about 23% in 1996, up from 0.6 % in 1994.

3.4. Macro-economic stabilization and conditions for growth

Macro-economic policies implemented by the Government of Uzbekistan were aimed at: financial stabilization, stopping the recession of industrial output, preventing depreciation of the currency, increasing investment in key sectors and preventing further drops in the living standard of the population after the initial post-Soviet shock. This was achieved through some of the policy and structural reforms

found in other post-socialist countries, such as liberalization of the enterprise regime, especially for small business, a re-ordering of priorities in key branches of the economy via investments and changes in relative price, a reorientation of international trade from CIS to non-CIS countries through trade liberalization and the activities of joint ventures, decentralization and privatization, efficiency gains in the financial sector via the introduction of new financial institutions, and moderately strict monetary and credit policies.

Positive macro-economic results achieved over five years of reforms are: significantly lower rates of inflation, a controlled depreciation of the nominal auction exchange rate, some periods of unification of the auction and market rates, an apparent end to the post-Soviet recession in industrial production as a whole and consumer goods production in particular, modest growth in the gross domestic product after 1995, relatively stable real wages since the 1994 plunge, rising dollar wages since the trough of late summer 1994, and the prevention of open unemployment. In December 1996 average monthly dollar wages at the official exchange rate - which by then stood at half the market rate - about \$70 compared to \$41 in December 1995.

Table 3.1. Main Economic Indicators (previous year = 100)

	1991	1992	1993	1994	1995	1996
GDP	99.5	88.9	97.6	95.8	98.8	101.6
Consumer price index	206	818.8	1141.6	1557	349.7	184.5
Industrial production	101.5	93.3	103.6	101.6	100.2	105.9
of which:						
Consumer goods production	104.3	99.3	112	97.7	101.5	108.1
Fixed capital investment		68	95	78	102	106.9

Source: Goscomprognozstat

According to preliminary official data for 1996, the main indicators of the development of the Uzbek economy were as follows:

1. Reorientation of trade. The effects of the breakdown of trade with the former republics of the USSR have been almost completely overcome. It thus proved possible quickly to reorient trade beyond traditional suppliers and partners in the FSU to third countries who paid world prices in hard currency. Uzbekistan's more irrational and unprofitable economic relations as a supplier of cotton and non-ferrous metals to Russia and other CIS republics, and as an importer of grains, petroleum and machinery were substantially reduced.

During the same period, Uzbekistan re-oriented its exports to the rest of the world, so that Russia, formerly the most important trading partner by far, took 24.9% of Uzbek exports in 1995. Exports to the rest of the world rose from 8.4% of total exports at official exchange rates in 1991 to 59% in 1995 and 77% in 1996. Imports from the rest of the world rose from 12.7% in 1991 to 46.7% in 1994, 56.9% in 1995 and 67.9% in 1996. As the initial post-Soviet shock was adjusted to, total exports in dollar terms recovered strongly 1992 and 1995, and imports even more so.

2. Reduced dependence on imported energy and food. The government has promoted structural change in agriculture, industry and the energy sector with a view to exploiting the country's rich natural endowments in fertile land and natural gas and to moving in the direction of self-sufficiency. Energy imports were 14% of imports in 1994 but only 1.9% in 1995 and 1.1% in 1996. Food imports were 31.5% of imports in 1994 but 29.5% in 1996.

3. Lower inflation. It has been possible to stop hyperinflation. The level of monthly average inflation has decreased to a controllable size.

Financial stabilization is provided at the expense of restriction of the budget deficit to no more than 3.5 % of GDP, the decrease of the average rate of growth of the money supply, accumulation of gold and hard

currency reserves for current conversion of soums into hard currency and maintenance of a stable official rate of the soum to foreign currencies though the black market rate is much higher.

4. An end to the recession. Output has stabilized. Both industry and GDP as a whole troughed in 1995. On preliminary data GDP grew 1.6 % in 1996, industrial production was up 6.0%, consumer goods production rose 8%, retail trade turnover grew 21 %, paid services rose in value by 9.9 %, investment from all sources of financing rose 6.9 %, and foreign trade turnover soared 40%, with exports up substantially.

5. Stabilization of living standards. Better growth results and lower inflation permitted real money incomes of the population to rise 16% on average in 1996.

6. Industrial policy, FDI and technology. Industrial policy is being used by the government to reorient production and trade in the direction of Uzbekistan's likely comparative advantage. The strategy comprises priority programmes and specific projects. Import-substitution is the strategy in some industries such as oil, grain, food production, light industry; and export promotion is the strategy in others, such as automobiles, non-ferrous metals, and, eventually, gas. About 60% of total investment in 1996 went into projects of these types.

These plans have a foreign technology component. Foreign direct investment and (FDI) foreign credits have grown. Other potential FDI projects are under preliminary discussion.

Achievements in industrial policy to date include:

- large increases in gas and especially in oil production, which permitted the reduction of energy imports to almost zero, holding out the promise of energy independence for Uzbekistan. The country's gas exports to Central Asia should grow as neighbouring economies recover and as new pipelines are built.
- the creation from scratch of a new branch of the national economy, the automobile industry, through a joint venture with Daewoo (South Korea). In 1996 Uzbekistan output was over 25,000 cars, with 100,000 targeted for 1997 and 160,000 for 1999. Around 50% of final capacity output will be exported to Central Asia, Russia, China, Pakistan and Iran.
- a plan for overcoming the Soviet-era mis-development of and the post-Soviet recession in chemicals and iron and steel. The metallurgical complex at Bekabad is being completely rebuilt with Russian and German components and is due to be completed in 1998.
- import-substitution in the manufacture of light industrial consumer goods: textiles (cotton and silk), clothing and footwear, and in food processing. Examples of western brand-name ventures include the Coca-Cola bottling plant and the giant UZBAT cigarette plant.
- modernization of the existing telecommunication system and the introduction of new communication systems in various regions of the country. Again much remains to be done, but there are new direct lines to several European countries, the US and Japan. Daewoo Corporation has announced a \$250 million investment to upgrade digital and conventional lines and set up a mobile telephone service.

7. De-statization and privatization. These are going ahead in all sectors on a phased basis. Non-state, corporatized, privatized and private enterprises accounted for more than 70% of employment in 1996. As of January 1, 1997 Uzbekistan had 84,400 non-state enterprises of which 44,100 were private and 37,200 in collective ownership.

About 30% of GDP goes to the state budget as revenue, and the state provides about 20% of total investment.

3.5. Aspects of state intervention to promote competition and good corporate governance

While the early years of transition were taken up with the task of choosing new market institutions endowed with more well-thought-out incentive structures to replace those of the command-management system, recent years have been taken up with helping these new institutions work smoothly. The idea was that they should begin to function on their own, in a 'self-regulating' fashion, with positive effects on output, productivity and thus on economic and other aspects of human development. How the new institutions would root themselves in existing and traditional institutions was to be monitored.

Table 3.2. The non-government sector's share of the economy

Share of the non-state sector in %	1995	1996
GDP	67.3	68.9
Industrial output	51	53.5
Agricultural produce	97.7	97.7
Construction	62	64
Retail trade	91	95

3.5.1. De-statizing state property

The privatization process was carried out under the aegis of the 'Law on privatization and decentralization', and also via numerous Decrees of the President and Resolutions of the Government. Management of the process was assigned to the State Committee on Privatization and Decentralization (GosKomiushchestvo), specially created for these purposes, and to its territorial branches.

In contrast to Russia and the Czech Republic, Uzbekistan did not use vouchers because it requires an advanced market infrastructure and expenditure on trying to persuade the population to participate. Shareholding was held to involve complicated legislation. It proved impossible to set this up at short notice. On the other hand, hyperinflation processes and the weak financial position of enterprises reduced their attractiveness to both sophisticated investors and ordinary people.

Thus the most that was attempted in the early years of Uzbek reform was to reorganize ministries and government departments into concerns, associations and corporations. Originally these were closed joint-stock companies; many have since been converted into open-ended joint-stock companies, and state shares reduced through sales on the Stock Exchange and through financial investment funds. Further, the government removed all 'profile' restrictions on the type of business and employment a privatized firm could engage in. During 1995 more than 1800 state firms including 300 large ones, were sold. An additional 6700 firms were privatized outside the state programme. The World Bank is helping with a mass privatization programme via the establishment of a series of Privatization Investment Funds, which are working very well and are one of the better achievements of the government's economic programme.

From the first years of reform, there has been a very rapid "small" privatization of entities engaged in trade and services, mainly to private owners and to members of previous labour collectives. By the end of 1995 about 95% of such firms had been transferred.

There was also a near-total shifting of the state housing stock into private hands. By the end of 1995 it had become the private family property of the occupants, at a nominal price that was less than a month's wage in most cases.

In 1994 the market for real estate was made more competitive and transparent via the institution of a national exchange. Auctions of real estate were organized for commercial buildings formerly used in trade and services, and also of housing and unfinished construction.

The institution of private property has been introduced for some kinds of land, and plot sizes have been increased. Leases are now heritable, so that the incentive structure regarding private investment in agricultural improvement is almost indistinguishable from that under full privatization. The transfer by sale at auction of land from public into perpetual individual possession has begun. Plots of land may be sold for the purposes of house construction and for agricultural use, as private (dckh-kan) farms. There are certain maximum plot sizes.

Starting in 1995, ownership of medium and large enterprises was further dispersed. State associations and enterprises were converted from closed joint-stock companies, whose shares were not allowed to be sold to third parties outside the state and the work collective (managers and workers), into open-ended joint-stock companies which could have third-party owners. There was in addition a requirement that some parcels of shares be sold to the general public (including foreigners) on the Tashkent Stock Exchange,

The first fruits of these decentralization initiatives are the following:

The number of enterprises active in a given sector increased, stimulating competition. The new entrants mostly had better corporate governance and more efficient incentive structures than the state enterprises with which they were competing.

As a result, monopolization rates and concentration ratios began to decrease in particular sectors. Overall, the non-state and private sector's shares in output, incomes and employment rose. The character of Uzbekistan economic 'mechanism' began to change.

The increased number of participants put enterprises still in state ownership, even in key branches of the economy, under pressure to improve their performance. Competition from domestic, foreign and joint-venture firms gradually drove the state sector, even the "commanding heights" of Uzbek industry, to begin to watch costs and improve the quality of their products.

3.5.2. Increasing competition in the state sector

Changing the nature of state property has been a multi-faceted process in Uzbekistan. Its major directions were:

- The differentiation of state property by administrative level and by region and the legal separation of these entities from one another.
- Commercialization of state firms' activities. They were to be weaned from state-subsidized procurement prices, state-guaranteed input supplies, negative interest rates, directed credits, preferential access to foreign exchange and other non-market allocation mechanisms for inputs and outputs. Thus, even though still state property, they were to begin to behave like commercial enterprises who must satisfy customers and pay their bills.
- De-monopolization within the framework of state property. This was a two-pronged strategy involving splitting up monopolies into entities that would compete with one another on the one hand, and regulating 'natural' monopolies, on the other. The former included decentralization of large conglomerates (industrial associations, trusts).
- Changing the incentive mechanisms for managers of state firms (giving them rights to manage the company as they saw fit, giving them share options based on the profits of the enterprise, etc.).

During the Soviet period state enterprises were the basic organizational form in industry. After independence, making state enterprises behave more like market enterprises came onto the agenda. The law "On enterprises" fixed the independence of state enterprises in law. It stated that enterprises were now to pursue their own profit by minimizing costs and contracting for their own outputs; they no longer had the obligation of fulfilling output and delivery plans set by superior state organizations. Enterprises began independently to work out their own product mixes, to conclude direct economic contracts with suppliers or buyers of their own choosing, and to set prices for their products.

The next step was conceived as putting state enterprises in a framework of quasi-market conditions. Subsidies were to be eliminated. Earnings of certain employees, such as the director, were to depend directly on the profits and the financial success of the enterprise which the state had entrusted to his or her management. To induce directors to manage state property better, it was thought necessary to give them both greater responsibilities, and greater rewards.

Presidential decrees on support and initiation of private business have promoted competition in retail trade and in the manufacture of consumer goods by small enterprises and cooperative societies. In the consumer goods market, imports were liberalized, greatly increasing competition. Consumer goods now were freely available at market prices.

At the same time, monopolization levels of the economy, especially in wholesale trade, construction of large buildings and installations, transport, manufacture of certain kinds of industrial production and consumer goods, are still very high. According to the Ministry of Finance, in 1995 out of 945 enterprises making 3096 products, 288 products were produced by 147 firms with market shares of 35% or more (20% in food) at the nation-wide level, and 2808 products were monopolized by 798 firms at the local level. A manufacturer or service provider with market power can get away with raising prices on a given and sometimes a reduced volume of output because buyers cannot readily go elsewhere. This makes it difficult to bring down inflation via monetary and fiscal policy, and diminishes the effectiveness of measures designed to stimulate real GDP growth.

In order to begin to address this situation, Uzbekistan in 1992 passed a law "On the restriction of monopolistic activity". A state register was produced to monitor the activities of exclusive structures and to recommend decisions about whether to regulate them, subject them to foreign competition or break them up.

However the anti-monopoly institutions were not very effective. Therefore in May 1996 a Committee on De-monopolization and the Development of Competition was created at the Ministry of Finance. A new law "On competition and restriction of monopolistic activity in the commodity markets" was adopted. This law has a specific organizational and legal basis for the prevention and restriction of monopolistic practices and unfair competition in Uzbekistan commodity markets.

In 1996 a Law on the protection of consumers' rights was adopted. However, in spite of the fact that almost a year has passed since the adoption of the law, only the state institutions are functioning. Nongovernmental public organizations to protect consumer rights are forming, but with conspicuous progress only at the local level.

The state has also undertaken a series of measures to enhance competition not only on the home market, but also on the export market. The enterprises UzDaewooAuto, UzDaewooElectronic, the Bukhara Oil Refinery, the BAT tobacco plant and other joint ventures should enhance Uzbekistan's competitiveness on markets elsewhere in Central Asia, the CIS and elsewhere. These firms should help Uzbekistan gain easier access to foreign inputs, technology and business practices.

In 1996 the Uzbekistan Chamber of Manufacturers and Businessmen was created, with more than 230 divisions in the regions. The chamber's mandate is to help small and medium-sized businesses with registration, marketing, taxation, legal problems, networks of contacts, etc. There are local programmes of assistance to small business and the unemployed. State sponsorship of these processes gives them more authority and dynamism.

Table 3.3. Enterprises with foreign participation

	1992	1993	1994	1995
Registered enterprises	570	1005	1246	1818
Operating enterprises	128	288	644	1039
Output, (million soum)	7.7	112.6	1708.1	344.3

3.5.3. Creating commodity and stock markets

Under central planning, inputs were not sold but 'distributed' according to all-Union and republican ministries' plans for the "material-technical supply" of state enterprises. Wholesale and retail distribution organizations were given factories' outputs by administrative decision. Only those agricultural surpluses allowed to be sold on kolkhoz (collective farm) markets were allocated by a market mechanism. However

given that only 4-5% of retail trade turnover went through the kolkhoz market system, commodity markets scarcely existed.

The creation of commodity markets in Uzbekistan began in 1992 with the dismantling of the centralized distribution system of funds for commodity resources, the discontinuation of the USSR-wide material-technical supply system and the beginning of price liberalization. The mechanism of trading commodities on exchanges helped replace existing allocation and distribution structures. During 1992 over 30 commodity and raw materials' exchanges were created to try to take over from the material-technical supply system. As of 1997, the largest exchange in the country was the Uzbek National Commodities and Raw Materials' Exchange, which has over 260 registered brokers and dealer offices and branches in almost all areas of the country.

Another landmark in the creation of markets for consumer goods was the process of small privatization of enterprises in retail trade and services, also initiated by the state. During 1993-1994 practically the whole retail trade network was sold to individuals.

In the first years of reform (1991-1994), prices of some kinds of the most necessary goods (12 items in 1991, 4 in 1994) were set by the state or were adjusted by it in order to protect the population. In these cases goods were rationed. In early 1995 all remaining subsidies for consumer goods and the rationing of sugar, flour and vegetable oil was discontinued, and profit margin regulations were eased. By mid-1996 all prices had been raised to full cost recovery levels except for heating, hot water and housing, which are still subsidized by local governments. There are no barriers to the free internal movement of goods.

Commercialization of enterprises making consumer goods, a doubling of the size of plots given by the state to individuals for private farms and new small and medium-sized enterprises that produce consumer goods also promoted competition in the commodity markets.

Table 3.4. Retail turnover of goods and services by form of ownership

	1991	1992	1993	1994	1995	1996
Total real retail						
trade turnover (index)	100	59.0	127.5	90.4	92.2	121.0
State share, (%)	47.5	46.5	28.0	9.4	9.0	5.5
Non-state share, (%)	52.5	53.5	72.0	90.6	91	94.5

Source: Official data and Goskomstat SNG, *Ekonomika stran sodruzhestva v 1995 godu*, January 1996, p. 85 and *Statisticheskii Biulleten'*, January 1997, p. 55.

At the same time, the former system of material-technical supply of producer goods was inadequately substituted for by new market forms of distribution. Relatively high levels of monopolization in wholesale trade affects the nature of competition especially in agricultural districts.

The Uzbek stock market got off to a slow start. Though distribution of shares of enterprises began in 1992, the process did not go far until 1996, when the state's remaining shares of corporatized enterprises were marketed through the stock exchange, either to individuals using their own savings, or to shareholders acquiring shares by buying units on concessionary terms of the Privatization Investment Trusts. This new approach fits the chosen model of gradual reform. Uzbekistan is moreover benefiting from the good and bad experiences of other transition countries that tried to create a nation of stockholders overnight, and hopes to avoid the problems of that path. A stock exchange (initially a stock department of the Commodity and Raw Materials Exchange) has been in operation in Uzbekistan since 1992. The country presently has over 4000 joint stock companies and 130 investment institutions licensed by the Centre for Control over the Securities Market. Some 35 laws govern the securities market. Uzbekistan now also has a National Depository with a mandate to handle the registration, accounting, storage and transactions data for securities via an electronic database. Brokers' and dealers' offices and consulting firms act as intermediaries between the public and firms on the stock market. Since 1996 Privatization Investment Funds and managing companies have begun to operate in the country with a good deal of success. Regulation is handled by the Centre on Coordination and Control over the Functioning of the Securities Market.

In the private securities market of the country practically all kinds of securities are represented: shares, bonds, bills, futures. Uzbekistan may issue a Eurobond in future if it acquires an independent credit rating.

Ratings are normally contingent on the publication of data on foreign exchange and precious-metals reserves, on having an IMF stand-by programme and, probably, a convertible currency.

All these measures, liberalizations, laws, policies and state initiatives have combined to produce in Uzbekistan a fairly steady, deep-rooted but slow transition from a highly centralized command economy to a mixed economy driven mainly by market signals. These processes are set to continue gradually and to spread deeper into agriculture, foreign trade and the labour market.